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STUDY OF MORTGAGE CREDIT

REPORT

OF

SUBCOMMITTEE ON HOUSING
(Under S. Res. 221)

TO THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

APRIL 15, 1960

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LETTER OF TRANSMITTAL

SUBCOMMITTEE ON HOUSING,
COMMITTEE ON BANKING AND CURRENCY,
April 1, 1960.

Hon. A. WILLIS ROBERTSON,
Chairman, Committee on Banking and Currency,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I am pleased to submit a report upon the study of mortgage credit recently completed by the Subcommittee on Housing. The submission of this report has been approved by all members of the subcommittee. Senator Bush and Senator Beall have not endorsed the recommendations.

I am enthusiastic about the results of this work and I hope that it will lead to both legislative and administrative actions designed to improve the supply and distribution of home mortgage credit during the next decade.

Sincerely,

JOHN SPARKMAN.

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STUDY OF MORTGAGE CREDIT

PART I. INTRODUCTION

Background and Purpose

In the fall of 1958 the chairman of the subcommittee, with the concurrence of subcommittee members, directed the staff to begin work on a project concerned with legislation which might be required to satisfy the demand for home mortgage credit anticipated during the decade of the sixties. This work was started at the conclusion of the 2d session of the 85th Congress, during which many legislative proposals were unresolved. These proposals, and the demand for credit which could be foreseen, indicated that it would be necessary for the subcommittee to make informed judgments about the need and the demand for homes and rental units; the quantity and sources of required credit; the maximum maturity, minimum equity, and other terms of required loans; anticipated construction cost levels; income characteristics of families in the housing market; and many interrelated subjects.

The subcommittee attempted to answer the basic question: How should Federal housing programs be supplemented or modified to insure a supply of home mortgage credit adequate to meet the great demand anticipated in the 1960's, upon terms and conditions which consumers can afford and which are economically sound?

Procedure of Study

This basic question was expanded into an outline of component topics concerned with factors contributing to the demand for housing and factors contributing to the supply of housing. Recognized authorities from Government, industry, and educational institutions were requested to prepare papers on each of the component topics. Insofar as possible, where the handling of a subject was susceptible to differing points of view, authors representative of these different views were invited to participate. The outline of topics and authors who submitted papers are listed below:

Demand and need factors:

- Changes in inventory of households:
  - Growth in households in the United States, 1960, 1965, and 1970; Elmer C. Bratt, professor of economics, Lehigh University, Bethlehem, Pa.
  - Projection of number of households, 1961–70; Commerce Department, Bureau of the Census.
- Changes in inventory of dwelling units:
  - Importance of net replacements in housebuilding demand; Sherman J. Maisel, professor of business administration, University of California, Berkeley, Calif.
  - Substandard dwelling units and their replacements, 1961–70; Reinhold P. Wolff, director, Bureau of Business and Economic Research, University of Miami, Coral Gables, Fla.

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Demand and need factors—Continued
Family income and buying power; Commerce Department, Office of Business Economics.
Relationships between family income and housing expense:
Relationships between family income and housing expense; James Morgan, Survey Research Center, University of Michigan, Ann Arbor, Mich.
Housing costs and family income; H. E. Riley, Labor Department.
Credit terms:
Credit terms and effective demand for new housing; Charles Abrams, visiting professor, Massachusetts Institute of Technology, Cambridge, Mass., and Morton Schussheim, director of research, New York State Rent Commission.
Credit terms and demand for residential construction; Ramsay Wood, Bureau of Business and Economic Research, University of California, Los Angeles, Calif.
Farm housing: Demand and need factors—U.S. farm housing, 1960–70; Glenn H. Beyer, director, housing research center, Cornell University, Ithaca, N.Y.
Supply factors:
Housing:
Technological changes in residential construction, 1961–70; Ralph J. Johnson, director, Research Institute, National Association of Home Builders, Washington, D.C.
Expected technological developments in home construction, 1961–70; George Price, president, National Homes Corp., Lafayette, Ind.
Requirements for basic residential construction materials during the 1960's; Joseph L. Fisher, associate director and secretary, and Edward Boorstein, economist, Resources for the Future, Inc., Washington, D.C.
Residential construction labor supply and costs, 1961–70; Emerson P. Schmidt, director of economic research, Chamber of Commerce of the United States, Washington, D.C.
The provision of adequate residential building sites in the sixties; Richard U. Ratcliff, professor of land economics, School of Commerce, University of Wisconsin, Madison, Wis.
Critical problems to be faced in obtaining residential building sites; 1961–70; Max Wehrly, executive director, Urban Land Institute, Washington, D.C.
Farm housing; E. V. Smith, director, agricultural experiment station, dean, Auburn University, Auburn Ala.
Supply of dwellings for underhoused farm families; Agriculture Department.
Financing:
Financing the housing market of the sixties; David L. Grove, economist, Bank of America National Trust & Savings Association, San Francisco, Calif.
The availability of residential mortgage credit; Saul B. Klaman, economist, National Association of Mutual Savings Banks, New York, N.Y.

Supply factors—Continued
Financing—Continued
Postwar trends in the sources and uses of capital funds; James J. O'Leary, director of economic research, Life Insurance Association of America, New York, N.Y.
The effects of monetary policies on the residential mortgage market; James J. O'Leary, director of research, Life Insurance Association of America, New York, N.Y.
The impact of monetary policy on residential construction, 1948–58; Warren L. Smith, University of Michigan and Harvard University.
Improvements of Federal home loan bank programs; Edward E. Edwards, professor of finance, School of Business, University of Indiana, Bloomington, Ind.
A program for the Federal Home Loan Bank System designed to improve the distribution of the pool of credit available for new residential construction; Kurt E. Flexner, associate professor of finance, New York University, New York, N.Y.
Changes in Federal home loan bank programs; Robinson Newcomb, economic consultant, Washington, D.C.
Increasing credit for new construction; Neal J. Hardy, director, National Housing Center, Washington, D.C.
A more effective mortgage insurance corporation; Miles L. Colean, economic consultant, Washington, D.C.
Suggested modifications of the FHA, VA, and FNMA programs to improve the supply and distribution of mortgage credit available for home financing; Robert E. Scott realtor, Elizabeth, N.J.
The FHA mortgage insurance premium—an analysis and an alternative; Ernest M. Fisher, professor of urban land economics, Columbia University, New York, N.Y., and Chester Rapkin, research associate professor, University of Pennsylvania, Philadelphia, Pa.
FHA premiums and fund mutuality; Harry Held, vice president, Bowery Savings Bank, New York, N.Y.
Proposal for a central mortgage reserve bank; Thomas P. Coogan, president, Housing Securities, New York, N.Y.
Facilities for mortgage credit; James W. Rouse, mortgage banker, Baltimore, Md.
Housing credit for middle-income families; William L. C. Wheaton, director, Institute for Urban Studies, University of Pennsylvania, Philadelphia, Pa.
Government aids to financing private purchase of houses; Sherman J. Maisel, professor of business administration, University of California, Berkeley, Calif.
Sources of farm housing credit; Agriculture Department.

The compendium of papers was published in December 1958, and distributed to participating authors, Government agencies, trade associations having an interest in housing legislation, and members of the public who expressed an interest in the publication.

During the period from May 14 through May 29, 1959, the subcommittee held hearings to further amplify information contained in the December publication. Participating authors appeared to discuss their papers, with the following exceptions:

E. Everett Ashley III, Director, Statistical Reports and Development Branch, Housing and Home Finance Agency, appeared in place of Professor Ratcliff, who could not be present.

C. Hobart Carr, chairman, Department of Banking and Finance, New York University, appeared in place of Dr. Flexner, who could not be present.

David K. Gillogly, graduate fellow in economic research, University of Miami, Coral Gables, Fla., appeared in place of Dr. Wolff, who could not be present.

David L. Grove was unable to appear, but submitted a statement for the record of the hearings.

In addition, Mr. L. Durward Badgley, director of real estate and mortgage research, Mutual Life Insurance Co. of New York; Mr. Cornelius R. Gray, administrative assistant to the president and secretary-treasurer, Building and Construction Trades Department, AFL–CIO; Mr. Louis Paradiso, Assistant Director, Office of Business Economics, Department of Commerce; Kenneth L. Scott, Director of Agricultural Credit Services; Mr. Kermit H. Hansen, Administrator, and Charles C. Barnard, Director, Budget and Statistics Division, Farmers Home Administration, Department of Agriculture—appeared before the subcommittee and submitted testimony. The Federal Home Loan Bank Board did not appear at the hearings, but submitted a statement for the record.

The subcommittee takes this opportunity to express publicly its sincere appreciation for the contributions made by all the above-named authors and witnesses.

The record of these hearings was published later in 1959.

Since adjournment of the 1st session of the 86th Congress, the subcommittee has reviewed data obtained in the compendium of papers and in the public hearings, has reached certain conclusions, and makes recommendations for legislation. These recommendations, supported by findings and conclusions, are respectfully submitted for the consideration of the Committee on Banking and Currency.

PART II. MAJOR FINDINGS

Demand and Need Factors

ESTIMATE OF NEW UNITS REQUIRED

New residential construction requirements for the 1960's are estimated at a minimum of 16 million nonfarm permanent units, or an average of 1.6 million a year. These 16 million units will be needed to provide shelter for the 11 million new nonfarm households estimated to be formed and to provide replacements for the net loss of about 5 million units, standard and substandard, which it is estimated will be demolished, vacated, or lost from the inventory during this period. New construction should gradually increase from requirements of 1.4 million a year at the beginning of the decade to 2 million a year by the end of the decade.

In order to develop estimates of new units required for the decade of the sixties, it is necessary to estimate population growth, new family and household formation, changes in geographical location of the American family, and changes in the utilization of the existing housing stock.

Population growth is a fundamental consideration in projecting need for new housing units but, equally important is how that population is distributed into family and other separate groups seeking independent living quarters. For example, the baby boom of the late 1940's had less effect on the demand for new housing units than will the maturity of those babies into young married couples 20 years later.

Of equal importance in determining the number of new units required is the distribution of the population by areas. Americans are a mobile people and to the extent that this mobility causes concentration of the population in already impacted areas, a much greater housing demand is created. The movement away from the farm, the strong suburban movement, and the further concentration of the population in large metropolitan areas are important considerations in estimating future housing needs.

The demand for new housing will be influenced also by the extent to which families will be satisfied to continue using small, overcrowded living quarters or will seek new housing to replace less desirable quarters.

Population projections

The growth of the U.S. population is the greatest single factor to be considered in estimating new household formation and the consequent new housing requirements for the future.

Since World War II, U.S. population has grown at a rate far above the predictions of the professional demographers who predicted that our Nation is approaching a maturity where family size would level off at a point just adequate to reproduce itself. The high birth level, which has exceeded 4 million every year since 1954, has confounded the experts. According to projections of the Census Bureau, the in-

crease in population from 1950 to 1960, and again from 1960 to 1970, numerically, will exceed any previous decade in U.S. history and, percentagewise, will be greater than any decade since 1910. The current yearly growth is about 3 million persons. The 1960 population of 179 million is expected to reach nearly 214 million by 1970, a 20-percent increase.

Population of the United States from 1930 to 1955, and projections for 1960, 1965, and 1970 are as follows:

TABLE 1.—*Population of United States, 1930 to 1970*

Year	Population	Average annual increase in previous 5 years	Year	Population [1]	Average annual increase in previous 5 years
1930	123, 188, 000	1, 471, 000	1955	165, 270, 000	2, 717, 000
1935	127, 362, 000	835, 000	1960	180, 126, 000	2, 971, 000
1940	132, 122, 000	952, 000	1965	195, 747, 000	3, 124, 000
1945	139, 928, 000	1, 561, 000	1970	213, 800, 000	3, 611, 000
1950	151, 683, 000	2, 351, 000			

Source: Bureau of the Census, with projections for 1960, 1965, and 1970 based on series II estimates prepared by the Census Bureau.

The unusually fast growth in population since World War II has been a consequence of a surprisingly high birth rate, as well as a gradually reducing death rate. While the death rate has been running at the relatively low figure of a little over 9 per 1,000 population, the birth rate has been running at the high rate of a little over 25 per 1,000 during the last 5 years.

The increase in births over a period of 40 years may be seen in the following table:

TABLE 2.—*Number of births in United States, 1930 to 1970*

Year	Births	Year	Births	Year	Births
1930	2, 618, 000	1947	3, 817, 000	1955	4, 091, 000
1935	2, 377, 000	1948	3, 637, 000	1960	4, 300, 000
1940	2, 559, 000	1949	3, 649, 000	1965	5, 000, 000
1945	2, 858, 000	1950	3, 632, 000	1970	5, 500, 000
1946	3, 411, 000				

Source: Department of Health, Education, and Welfare with estimates for 1960, 1965, and 1970 based on projections of current rates through 1970.

Since 1940, there has been a sharp increase in the number of large families. Whereas the birth rate for first-born children has remained relatively constant over the last 20 years, the birth rate for second order births is up 65 percent, for third order births, up 130 percent, and for fourth order births, up 116 percent. At the turn of the century, the median age for the first marriage among men was 26 years of age. It is now about 22 years. Likewise for women, marriage age has dropped from 22 years in 1900 to around 20 years in 1959.

These data are significant for they indicate that the effect of the postwar baby boom on new marriages and new housing will be felt in the late 1960's—20 years later. A forecast of when this postwar baby boom will begin to create a significant impact on new family formation and on housing demand can be based on estimates of projections of the population, aged 18 to 24, from which comes the greatest number of new families. The number of such persons reached the lowest point

in 1955 as a result of the low birth rate during the depression of the 1930's.

TABLE 3.—*Number of persons aged 18 to 24 in United States, 1930 to 1970*

Year	Persons	Year	Persons	Year	Persons
1930	15,482,000	1945	16,790,000	1960	16,282,000
1935	15,961,000	1950	16,014,000	1965	20,109,000
1940	16,607,000	1955	15,117,000	1970	24,783,000

Source: U.S. Bureau of the Census with estimates for 1960, 1965, and 1970 based on projections of current data through 1970.

Note the increase in potential new family formation in 1965 and 1970. According to these data, from population growth alone, the new family formation in the late 1960's will be 50 percent greater than in the late 1950's.

These data reflect only the gross new family formation. A net figure would take into account the dissolution of families from deaths, divorces, and other causes.

Households

Total household formation (farm and nonfarm) during the 1960's is estimated at 10.5 million, or an average of about 1,050,000 units per year, according to the highest projections published by the Bureau of the Census.

The annual increment will gradually increase from a low of about 900,000 households in 1960 to 1,200,000 in 1970.

These figures were taken from the highest projections proposed by the Bureau of the Census. The lowest projections show an annual average increase of 750,000 households for the decade.

Testimony on the net number of households expected to be formed during the 1960's was given by Dr. Paul Glick of the U.S. Bureau of the Census, and Elmer C. Bratt of Lehigh University. These men differed somewhat in the estimate of new household formations in the United States during the 1960's, but if the Census Bureau's highest projection series were to be accepted, their estimates would be almost identical.

The Census Bureau prepared four sets of projections, varying from a low estimate for 1970 of 58.8 million households to a high of 62.9 million households. Dr. Bratt's estimate for 1970 was 62 million households, very close to the Census Bureau's highest figures.

The Census Bureau projections are based on various assumptions regarding future changes in population growth and in the tendency for persons to marry and to establish separate households. A large number of judgment factors are necessary in predicting the future trend of population growth and the extent to which people in this country will establish themselves into separate households. The four projections prepared by the Census Bureau, which are shown below, will permit anyone to select a particular series based on his judgment as to whether conditions will be conducive to rapid growth or to more moderate growth in the years to come. Series A and B contain estimates based on a more favorable climate for growth, and series C and D a less favorable climate.

TABLE 4.—*Number of households for the United States: 1930–58, and projections, 1960–80*

[In thousands]

[Series A and B based on population series II; series C and D on population series III]

Date [1]	Number of households					Average annual increase over preceding date				
	Census or CPS figures	Projections				Census or CPS figures	Projections			
		Series A	Series B	Series C	Series D		Series A	Series B	Series C	Series D
Census:										
April 1930	29,905					[2] 542				
April 1940	34,949					504				
CPS:										
April 1947	39,107					594				
March 1950	43,554					1,525				
April 1955	47,788					833				
March 1958	50,402					896				
Projections:										
July 1960		52,425	51,877	51,614	51,350		883	644	529	414
July 1965		57,517	56,076	55,311	54,565		1,018	840	739	643
July 1970		62,933	61,094	59,689	58,814		1,083	1,004	876	850
July 1975		69,318	67,003	64,906	63,900		1,277	1,182	1,043	1,017
July 1980		76,006	73,085	70,544	69,382		1,338	1,216	1,128	1,096
Increase, 1958 to 1980		25,604	22,683	20,142	18,980		[3] 1,149	[3] 1,018	[3] 904	[3] 851
Percent increase		50.8	45.0	40.0	37.7					

[1] Census figures are as of Apr. 1; Current Population Survey (CPS) figures are as of the middle of the specified month; projections are as of July 1.

[2] Average annual (12-month) increase between January 1920 and April 1930.

[3] Average annual increase, 1958–80.

The following assumptions were made with respect to the future trend in the percent of persons who will be heads of households in future years. These assumptions were applied with each age, sex, and marital status group.

Series A.—The average annual change from 1950 to 1957 in the proportion of persons in each age group who were household heads was assumed to continue to 1965. One-half of this average annual change was assumed for the period 1965–75. One-quarter of this average annual change was assumed for the period 1975–80.

Series B.—One-half the average annual change from 1950 to 1957 was assumed for the period 1957–65. One-quarter of this change was assumed for the period 1965–75. It was assumed that no change would occur after 1975.

Series C.—One-quarter of the average annual change from 1950 to 1957 was assumed for the period 1957 to 1965. It was assumed that no change would occur thereafter.

Series D.—The 1957 proportion of persons in each age group who were heads of households of a given type was assumed to continue to 1980. In view of recent changes, this is a conservative assumption.

The series A projections were selected for purposes of this report, based on testimony and general opinion among several authors that the Census Bureau figures are generally too conservative. Dr. Elmer C. Bratt of Lehigh University testified that his projections of 1970 household count would be about the same as the Census Bureau's

series A figures. These latest projections are the fifth set prepared by the Bureau of the Census since 1943. In each instance, the projections were underestimates of the actual count. Apparently a large part of this is due to the failure of the Census Bureau to give proper weight to economic influences which invariably affect the growth of population and households.

During the hearings, Dr. Glick of the Census Bureau, who prepared the estimates, stated that these figures were projections and not predictions. In preparing them he merely extrapolated the previous trends under various assumptions as to the proportions of persons married and in the proportions setting up their own homes. He made no assumption about future economic conditions or about the results of an aggressive and fruitful program to provide decent housing for all American families. He admitted that such a program would make a difference. In 1952, the last time the Census Bureau made projections, the highest series projections turned out to be slightly less than the actual numbers only 6 years later

The basic assumption of this report is that the United States will experience a continuing high level of economic activity and that the fruits of this activity will be distributed among all economic levels. The low-income family will benefit to a greater extent than before and should be able to purchase or pay rent for a decent separate household of his own. If the economy were to falter and decline as in the depression of the 1930's, it is very likely that individuals and families would be forced to double up and the number of new households formed would be even less than the lowest projection series of the Census Bureau. This report assumes a high level of economic activity during the 1960's and consequently series A, the highest household projection series, was selected.

TABLE 5.—*Projections of number of households for the United States, farm and nonfarm: 1959–70*

[Based on projection series A of Bureau of Census]
[In thousands]

Year	Total	Nonfarm	Farm	Year	Total	Nonfarm	Farm
1959	51,607	46,137	5,470	1965	57,517	52,513	5,004
1960	52,425	47,025	5,400	1966	58,477	53,565	4,912
1961	53,088	47,832	5,256	1967	59,550	54,726	4,824
1962	54,093	48,900	5,193	1968	60,810	56,067	4,743
1963	55,275	50,134	5,141	1969	61,837	57,137	4,700
1964	56,483	51,400	5,083	1970	62,933	58,339	4,594

The factors which lead to an increase in household formation are not all related to population growth. The tendency for more younger unmarried persons and more elderly persons to live independently in their own housing units may result in much larger numbers of new households formed and possibly upset the Census Bureau projection.

To obtain an idea as to what groups are expanding most rapidly, the following table may be referred to:

TABLE 6.—*Projections of number of households by types in United States: 1960 and 1970*

[According to Census Bureau series A projections]
[In thousands]

	July 1960	July 1970	Increase, 1960 to 1970	
			Number	Percent
All households	52,425	62,933	10,508	20.0
Primary families	45,103	52,748	7,645	16.8
Husband-wife	39,340	46,268	6,928	17.6
Other male head	1,264	1,270	6	.5
Female head	4,499	5,210	711	15.8
Primary individuals	7,322	10,185	2,863	39.0
Male	2,219	2,693	474	21.5
Female	5,103	7,492	2,389	47.0

Other sources of housing demand

In addition to new household formation, other sources of demand for new construction of residential units are (1) units needed to replace those dropped from the inventory because of destruction, demolition, abandonment, or conversion, (2) units needed to build up the vacancy ratio to a more normal level, and (3) the effects of family migration.

Estimates to meet these other sources of demand ranged from 5 million to 10 million for the decade of the sixties. According to the testimony, the most significant contributing factor appears to be the speed with which substandard units can be eliminated and replaced by decent standard housing.

Substandard housing

If conditions during the 1960's prove to be comparable to those during the 1950's, it is estimated that between 2.5 million and 3 million new units would be required to replace substandard units demolished, abandoned, or otherwise lost from the inventory during the decade. If, however, the problems of mortgage credit can be solved and an aggressive and effective policy is carried out to clear slums and eliminate substandard housing, an estimated 4 million new units would be required for replacement of substandard units lost from the inventory during the decade of the 1960's. By such a policy, it is reasonable to expect substandard nonfarm housing to be reduced from an estimated 8.5 million in 1960 to 3.5 million in 1970. Total substandard housing, both farm and nonfarm, could be reduced from an estimated 11.5 million in 1960 to 5.5 million in 1970.

One of the basic sources of housing data on which predictions can be made for the 1960's are those collected and published by the Bureau of the Census from the 1956 national housing inventory survey. In preparing estimates for the 1960's, an assumption was made that the demolition and abandonment of substandard housing would proceed at about double the 1950–56 experience, as reported in the 1956 survey.

Dr. Rheinhold Wolff of the University of Miami presented data to the committee on the trend in the reduction of substandard housing since 1940. (See table 7.) In presenting these data he recognized that because of different definitions used by the Census Bureau from one decade to another, the data on substandard housing are not strictly comparable.

TABLE 7.—*Total U.S. housing stock and substandard inventory: 1940, 1950, 1956, and 1960*

[1,000 units]

Year	Total housing stock	Substandard inventory	Percent substandard of total inventory
1940	37,325	18,364	49.2
1950	45,983	16,944	36.8
1956	55,341	13,092	23.7
1960 (estimated)	60,000	11,501	19.2

Source: Table prepared by Dr. Rheinhold Wolff from Census Bureau publications.

Dr. Wolff also presented a detailed analysis of the change which took place from 1950 to 1956 on substandard housing.

TABLE 8.—*Components of change in U.S. inventory of substandard housing: 1950–56*

[1,000 units]

	Substandard housing		Net effects on substandard inventory
	Increase	Decrease	
Total of components of change	3,508	7,360	−3,852
Substandard units rehabilitated, and now standard		4,538	−4,538
Standard units lapsed to substandard	1,431		+1,431
New construction	1,010		+1,010
Demolitions		816	−816
Conversions	444	152	+292
Mergers	188	816	−628
Other causes and other sources	435	1,038	−603

Source: Table prepared by Dr. Rheinhold Wolff from Census Bureau's 1956 National Housing Inventory.

The data in this table demonstrate the various changes that take place in the housing inventory involving substandard housing. In general, substandard housing is reduced either by rehabilitation or by removing the unit from the inventory. The former is, by far, the most effective. According to Dr. Wolff, during the period 1950–56, 4.5 million substandard units were rehabilitated to meet the minimum standards of plumbing and state of repair so as to be classified as standard housing by 1956. During this same period, 2.8 million substandard units were removed from the inventory through demolition, abandonment, merger, or conversion to nonresidential use. The sum of the reductions in substandard housing amounted to about 7.4 million units. However, at the same time, the process of obsolescence continued, and about 3.5 million units became substandard or were built as substandard, making a net reduction of 3.9 million in the count of substandard units from 1950 to 1956.

According to these data, housing has improved in the years since 1950 but at a slow rate. The greater part of the improvement has taken place by improvement of existing units and a smaller part by demolition of substandard units. Improvement of existing units includes such activities as remodeling or renovating to provide the units with standard plumbing equipment and placing the houses in good general repair.

In considering substandard housing and the apparent improvement in housing since 1950, it is well to keep in mind the serious limitation

of the statistical information on this subject. The technique for measuring substandard housing is far from satisfactory. In the analysis presented to the subcommittee on this subject the witnesses used the commonly accepted criteria of general condition and presence of plumbing facilities as defined by the Bureau of the Census. A dwelling unit is considered substandard if it is dilapidated or lacks a private inside bath and toilet. No recognition is given to overcrowding of the dwelling unit or of the structure by too many families; nor is any account taken of the environment in which the unit is located. The simple addition of a plumbing facility would result in a statistical rehabilitation according to criteria currently in use.

The statistical improvement in housing from 1950 to 1956 may be misleading in view of the shortcomings of the definition of substandard. Many houses in rundown neighborhoods may have been included in the rehabilitated group based on the simple addition, through compulsory code enforcement, of minimum plumbing facilities.

To project into the future the 1950–56 experience on the elimination of substandard housing is extremely difficult and must depend on a number of basic assumptions as to the state of our national economy, the availability of an adequate supply of good newly constructed housing units, and the effectiveness of the Government's urban renewal and other housing programs in eliminating slums and blight throughout the Nation.

The witnesses who addressed themselves to this subject differed in their opinions as to the rate at which substandard units may be eliminated during the decade of the 1960's. One witness, Mr. Sherman J. Maisel of the University of California, estimated that by 1970 the nonfarm inventory would contain about 6 million substandard units. This same witness estimated that about 260,000 substandard units per year would be demolished, or a total of 2,600,000 for the decade. This estimate merely projects in the 1960's the average annual rate of demolition among substandard units which took place from 1950 to 1956. Another witness, Dr. Rheinhold Wolff (represented by Mr. David K. Gillogly) of the University of Miami, projected the replacement requirement of substandard units in the 1960's to an estimated 2,700,000 units.

The following table on the substandard housing inventory has been prepared from material submitted to the subcommittee. The estimates for the decade of the sixties were based on an effective program to carry out national housing policy and thereby cut substandard housing in half by 1970. This program would call for the reduction of substandard housing from an estimated 11.5 million in 1960 to 5.5 million in 1970. To effect such a reduction, new construction of 4 million units would be required to replace a corresponding number of units lost from the inventory.

TABLE 9.—*Substandard dwelling units: 1950–70*

[Thousands of dwelling units]

	1950–57	1957–60	1961–70
Substandard units at beginning of period	16,950	13,100	11,500
Less: Rehabilitation of existing units	−4,500	−2,100	−3,000
Plus: Deterioration of existing units	1,400	850	
Less: Units lost through demolition, merger, or other means	−1,750	−850	−4,000
Plus: Construction of substandard units	1,000	500	1,000
Net reduction of substandard units	−3,850	−1,600	−6,000
Substandard units at end of period	13,100	11,500	5,500

Source: 1950–57 and 1957–60 figures are taken from tables prepared by Dr. Wolff from the Census Bureau's national housing inventory survey; 1961–70 estimates are projections based on the following assumptions:
Substandard units would be reduced by 50 percent from 1961–70.
New construction of substandard units would be ⅔ of the number built during the 1950's. This would include seasonal units built without standard plumbing.

Replacement of standard units

In addition to replacement of substandard units, new construction would be required to replace standard units which are lost to the inventory from such things as fires, floods, and other disasters, as well as those which are torn down for new highways or other public improvements.

Based on the Census Bureau's 1956 national housing inventory survey, an estimated 1½ million standard units were demolished, merged, or lost for other reasons during the decade of the 1950's. Many of these did not require construction of new units for replacement because of conversions that took place at the same time. However, if an active policy of home improvement is carried out during the 1960's and if our current programs of highway extension, public building construction, and urban renewal are carried through the 1960's, there is good reason to believe that 1.3 million standard houses would be lost to the inventory and would require a corresponding number of new units to replace them.

An aggressive program primed by fulfillment of the national housing policy to rid all our cities and small towns of slums would result in the 1960's of the demolition, abandonment, or other loss of 4 million substandard units and 1.3 million units now classified as standard for which new units must be built to provide for replacements.

Effect of migration on housing demand

There is no question about the tremendous effect of migration on housing demand. For the identical number of families the housing demand can vary substantially, depending on the location of these families. As families move from rural areas to urban areas, or from inside cities to the suburbs, or as they migrate from one part of the country to another, they leave behind a surplus of housing and create a shortage in the new area. If an equal number of families moved

in both directions, there would be no problem; but, as large numbers of families are attracted to new areas, their housing needs must be taken care of by new construction or by conversion of existing supply. An example of this has been the widespread movement to the suburbs. The great surge of suburban home construction has not been to meet the needs of new families but to meet the need of existing families leaving their homes in the city. Some of the homes left behind will be used by newly formed families, others will be available for replacing the units demolished or abandoned, but the remaining units will be surplus; first showing up as vacancies, then finally being taken off the market.

This same process has taken place in rural areas where there has been a strong movement away from the farms. According to census estimates, the number of farm households declined about 20 percent from 1940 to 1955. This trend is expected to continue and another 16 percent loss is predicted from the present time until 1970. The net effect on housing demand from this source alone could range from 1 to 1½ million units to house farm families expected to move to the cities and towns by 1970.

Migration from one region to another and a continuation of the strong movement to the suburbs will certainly continue in the 1960's and will require substantial numbers of new units to house those families moving into housing shortage areas.

Vacant dwelling units

There is a close correlation between migration of families and the vacancy ratio. As families move from housing surplus areas, they leave behind surplus vacant units which remain vacant for a time and eventually are removed from the inventory because of no demand.

In addition to large numbers of surplus vacant units in areas experiencing substantial outmigration, there are two other sources of vacant units which have caused the gross vacancy ratio to rise from 6.6 percent in 1950 to about 10 percent today. One source is the rapidly rising number of seasonal units; about one-third of the total vacancies are of this type. The other source of vacant units is the large number of marginal substandard units which stay on the market for a long time because of only limited demand. Nearly one-half of the vacant units were substandard in 1956. The following table was submitted to the subcommittee by Dr. Wolff:

TABLE 10.—*Characteristics of the substandard dwelling units in the national housing inventory of 1956 which were vacant*

[1,000 units]

	1956 total inventory	1956 vacant inventory	Percent vacant
Total units	55,341	5,467	9.9
Nondilapidated with all facilities	42,249	2,863	6.8
Lacking facilities	8,888	1,482	16.7
Dilapidated	4,204	1,122	26.7
Total substandard	13,092	2,604	19.9

Sources: 1956 national housing inventory, summary tables 1 and 4.

Part of the new construction housing demand for the sixties will come from families moving to other communities and leaving large numbers of vacant units without a market. The net demand from this source is estimated at 2 million units for the decade based on the gross vacancy rate reaching a maximum of 11 percent by 1970. This high vacancy rate is partly attributable to the expected high rate of construction of seasonal units and second homes during the decade.

Estimate of new units required

A summary of the sources of demand for construction of new units is given below. The 1950–56 figures are based on the Census Bureau 1956 survey. The 1957–60 figures are an extrapolation of the 1950–56 trend through to 1960. The 1961–70 figures are based on an assumption of a high level of economic activity and an aggressive Government policy to eliminate slums and blight. The number of substandard homes would be cut in half and family migration would continue at present rates.

TABLE 11.—*Source of demand for new construction in the United States: 1950–70*

[Thousand dwelling units]

	1950–56	1957–60	1961–70
Source of demand:			
Household formation	7,048	2,626	10,500
Replacements for existing dwelling units lost through demolition, abandonment, conversion, and merger	1,565	1,242	5,300
Replacements for net increase in vacancies, including seasonal	2,307	332	2,000
Requirement for new construction	10,920	4,200	17,800
Nonfarm permanent units	9,720	3,700	16,000
Farm, seasonal and temporary units	1,200	500	1,800

The new construction program indicated by the net demand for 16 million nonfarm permanent units during the decade will be spread over the 10 years with the greater number being required at the end of the decade. For the first 5 years, new construction should average 1,400,000 units a year and for the last 5 years it should average 1,800,000 units a year, probably reaching 2 million units a year by the end of the decade.

For purposes of this study, the requirements for farm, seasonal, and temporary housing are treated separately. The usual credit facilities are not available for these types of housing.

The estimates used in this study are based on criteria and measures of housing starts currently in use by the Bureau of the Census. To the extent that the Bureau of the Census revises its definitions and techniques to produce a higher count of housing starts the projections used in this report will be correspondingly higher.

TABLE 12.—*Changes in number of dwelling units in the United States, 1950–70*

[1,000 dwelling units]

	1950–56	1957–60	1961–70
Dwelling units at start of period	45,986	55,342	58,300
Added by new construction [1]	10,920	4,200	17,800
Added through conversions and other sources	1,651	−1,242	−5,300
Lost from mergers, demolitions, and other means	−3,215		
Dwelling units at end of period	55,342	58,300	70,800
Occupied	49,874	52,500	63,000
Vacant (includes substandard and seasonal):			
Number	5,468	5,800	7,800
Percent	9.9	10	11

[1] The corresponding nonfarm figures are 9,700,000 during 1950–56, 3,700,000 during 1957–60, and 16,000,000 during 1961–70.

Conclusion

New permanent residential construction required for the period 1961–70 is estimated at a minimum of 16 million nonfarm units provided an active effort is made to eliminate substandard housing. Substandard housing could be reduced from 11.5 million in 1960 to 5.5 million in 1970. The total inventory of housing would increase from 58.3 million dwelling units in 1960 to 70.8 million in 1970.

FAMILY INCOME, PURCHASING POWER, AND HOUSING EXPENSE

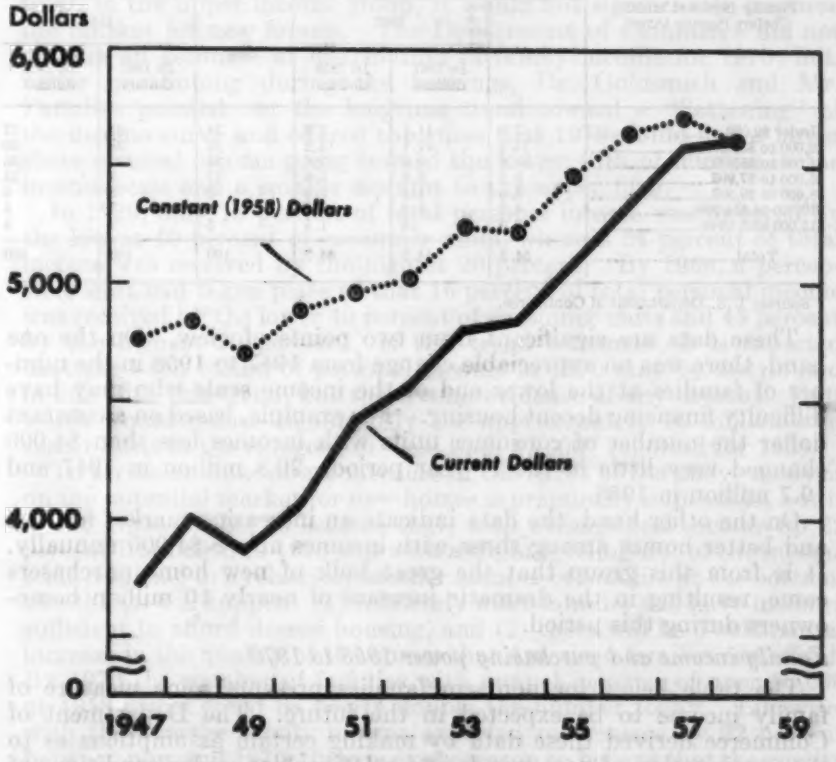
The average family income is expected to increase 22 percent from 1960 to 1970, according to estimates prepared by the Department of Commerce based on a continuing growth of the gross national product at an annual rate of 3 percent and a continuation of the historical relationship between real personal income and gross national product. This rising family income and purchasing power will be a significant factor in the number and quality of new homes built during the coming decade. The effectiveness of this purchasing as far as new-home construction is concerned, however, will depend not only on the total annual flow of personal income to American families, but also the distribution of that total in various income brackets. The Office of Business Economics of the Department of Commerce has done extensive work on this subject and made available to the committee the latest estimates prepared on current family income and projections to 1970. The following analysis is taken largely from data submitted by that Office.

Family income and purchasing power, 1947 to 1958

Looking back over the 11-year period 1947 to 1958, average family income increased 50 percent but there still remained, by 1958, 36 percent of consumer units with annual incomes less than $4,000.

CHART 1

Average Family Income After Federal Income Tax



U. S. Department of Commerce, Office of Business Economics 59-4-7

The average (median) consumer income has risen by $1,700 since 1947, from an average of $3,310 in 1947 to $5,050 in 1958.

The 50 percent increase in average income from 1947 to 1958 (see chart above) partly reflects the upward movement of prices, but actually represents an increase in real purchasing power. The table below shows income distributions in both current dollars and constant (1958) dollars. The rise in average real family purchasing power totaled $850 in the 11-year period, or about a 21 percent increase over 1947.

TABLE 13.—*Distribution of consumer units and their income by family income level, 1947 and 1958*

Family personal income (before income taxes)	Number of families and unattached individuals (millions)			Percent distribution		
	1958	1947		1958	1947	
		In 1947 dollars	In 1958 dollars		In 1947 dollars	In 1958 dollars
Under $2,000	7.6	11.1	7.6	14	25	17
$2,000 to $3,999	12.1	17.1	13.2	22	38	30
$4,000 to $5,999	13.6	9.2	11.6	25	20	26
$6,000 to $7,999	9.2	3.8	5.8	17	9	13
$8,000 to $9,999	5.0	1.5	2.8	9	3	9
$10,000 to $14,999	4.3	1.2	2.3	8	3	5
$15,000 and over	2.5	.8	1.4	5	2	3
Total	54.3	44.7	44.7	100	100	100

Source: U.S. Department of Commerce.

These data are significant from two points of view. On the one hand, there was no appreciable change from 1947 to 1958 in the number of families at the lower end of the income scale who may have difficulty financing decent housing. For example, based on a constant dollar the number of consumer units with incomes less than $4,000 changed very little in the 11-year period—20.8 million in 1947 and 19.7 million in 1958.

On the other hand, the data indicate an increasing market for new and better homes among those with incomes above $4,000 annually. It is from this group that the great bulk of new home purchasers came, resulting in the dramatic increase of nearly 10 million homeowners during this period.

Family income and purchasing power 1958 to 1970

The table below for nonfarm families presents some measure of family income to be expected in the future. The Department of Commerce derived these data by making certain assumptions as to the continuation of past trends and relationships under conditions of generally full employment. The flow of personal income for nonfarm families in 1956 was $283 billion out of a gross national product of $444 billion.

By 1970 this personal income is projected to $455 billion, an increase of more than 60 percent in 14 years. During the sixties, the Commerce Department estimates that personal income will increase more than 40 percent, or an average of about 4 percent a year. This is on a constant dollar basis and makes no allowance for increases in prices.

TABLE 14.—*Nonfarm families: Total and average income* [1]

	Total family personal income of nonfarm families (billions of 1958 dollars)	Number of nonfarm families (millions)	Average (mean) family personal income	
			1958 dollars	Index
1956	283	38½	7,360	100
1960	320	41	7,800	106
1965	380	44	8,600	117
1970	455	48	9,500	129

[1] Projections of total income have been rounded to nearest $5 billion, and those of average income to nearest $100.

The real purchasing power per nonfarm family in 1970 will be 29 percent higher than in 1956, or 22 percent higher than in 1960.

When evaluating the effect of this increased purchasing power, it is important to consider the extent to which it is distributed among all families. If, for example, the 22-percent increase were to occur, in total, in the upper income group, it would not significantly improve the market for new homes. The Department of Commerce did not prepare an estimate of distribution of family income for 1970; but, under questioning during the hearings, Dr. Goldsmith and Mr. Paradiso pointed out the longtime trend toward a "flattening" of the income curve and offered the guess that 1970 would find a larger share of total income going toward the lowest fifth of families in the income scale and a smaller amount to the upper fifth.

In 1929, only 13 percent of total personal income was received by the lowest 40 percent of consumer units, whereas 54 percent of total income was received by the highest 20 percent. By 1958, a perceptible shift had taken place so that 16 percent of total personal income was received by the lower 40 percent of consumer units and 45 percent by the highest 20 percent. If this trend continues, it is expected that the $455 billion of personal income in 1970 may be distributed in line with this trend, but there is no evidence of any dramatic shift which would reduce significantly the approximately 20 million consumer units in the category of "less than $4,000" reported for 1958.

To arrive at an accurate measure of the effect of the above analysis on the potential market for new homes is practically impossible, but it is not unreasonable to assume that, with average real income up 22 percent from 1960 to 1970 and with a slight leveling-out of the income scale resulting in a relatively smaller number of families at the bottom, two things will happen: (1) relatively more families will have incomes sufficient to afford decent housing, and (2) there will be a substantial increase in the quality of the homes that American families can afford. By 1970 the number of families with annual incomes of over $6,000 at 1958 prices could be nearly double the number today. Likewise, with the average family income expected to increase by 22 percent between now and 1970, there is every reason to believe that the quality of housing will be upgraded accordingly.

Relationship between family income and housing expense

Existing restrictions in the relationship of housing payments to total family income appear to be unnecessarily conservative. Arbitrary rules on limits of credit for home mortgages may have contributed to the sharp increase in other types of consumer credit resulting in a relatively underhoused American Nation. A different attitude by lending institutions and a change in policy by Federal agencies to permit more liberal financing with increased risks deserves most careful consideration.

The need and the desire of the American people for better housing is present, but the financial means for many low and medium income families are absent. The need is well demonstrated by the 11.5 million substandard housing units, the approximately 5 million households living in overcrowded housing, and the several million households living in blighted neighborhoods. A desire for better housing is indicated by the potential homeowners among the 8 million renters

who said in a 1958 survey that they had plans to buy a house, and the 7 million homeowners who planned to buy a different house, and the 6 million householders who planned to fix up and make major repairs to their homes. The desire to live better is well demonstrated by the opinion surveys of the Survey Research Center of the University of Michigan, which reports a willingness to sacrifice and a deep desire of the American family for a good home.

The two witnesses who submitted papers on the subject of the proper relationship between income and housing expense, Mr. James Morgan of Survey Research Center, University of Michigan, and Mr. H. E. Riley of the Department of Labor, agreed that there is no simple rule to follow.

This is well demonstrated by the wide range of housing costs and variability in percent of total budget for housing among American cities, as seen below:

TABLE 15.—*Estimated annual cost of city worker's family budget: October 1951*

City	Total budget	Housing	Housing as percent of total budget	City	Total budget	Housing	Housing as percent of total budget
Atlanta	$4,315	$934	21.6	Milwaukee	$4,387	$964	22.0
Baltimore	4,217	875	20.7	Minneapolis	4,161	797	19.2
Birmingham	4,252	805	18.9	Mobile	3,969	611	15.4
Boston	4,217	801	19.0	New Orleans	3,812	581	15.2
Buffalo	4,127	775	18.8	New York	4,083	723	17.7
Chicago	4,185	825	19.7	Norfolk	4,146	815	19.7
Cincinnati	4,208	901	21.4	Philadelphia	4,078	784	19.2
Cleveland	4,103	715	17.4	Pittsburgh	4,203	758	18.0
Denver	4,199	857	20.4	Portland, Maine	4,021	716	17.8
Detroit	4,195	758	18.1	Portland, Oreg	4,153	764	18.4
Houston	4,304	964	22.4	Richmond, Va	4,338	997	23.0
Indianapolis	4,044	680	17.0	St. Louis	4,112	751	18.3
Jacksonville	4,202	866	20.6	San Francisco	4,263	798	18.7
Kansas City	3,960	683	17.2	Savannah	4,067	746	18.3
Los Angeles	4,311	854	19.8	Scranton	4,002	707	17.7
Manchester, N.H	4,090	765	18.7	Seattle	4,280	804	18.8
Memphis	4,190	865	20.6	Washington, D.C	4,454	1,034	23.2

Source: U.S. Department of Labor.

Not only is there wide variability in total budget ($3,812 to $4,454) and housing costs ($581 to $1,034), but also in housing as a percent of total budget (15.2 percent to 23.2 percent). These figures are averages for the city worker's family budget as computed by the Department of Labor. The actual figures among all families in these cities would demonstrate an even wider variability.

Even the underwriting manual of the Federal Housing Administration recognizes no simple rule on this matter. On page 1654 of this manual may be found the following:

> One of the principal problems in mortgage credit analysis is to determine whether a mortgage obligation will be within the mortgagor's financial ability to pay. The rules of thumb, "monthly mortgage payment should not exceed 25 percent of a mortgagor's income," and "value of the property should not exceed 2½ times the mortgagor's annual income," have

been demonstrated to be unreliable as criteria, and, in fact, unsound in principle. Specific maximum ratios for all mortgagors are not practicable because of variations in local conditions, living standards, different family housing needs, and other conditions affecting ability to pay.

As Mr. Morgan pointed out, the most important aspect of this is the willingness to sacrifice and the consumer's desire for better housing. Once above a certain basic minimum, American families are capable of paying a great deal more than generally considered sound by mortgage lenders.

To demonstrate the lack of uniformity in the relationship between monthly payments and family income, the following table of data released by the survey research center of the University of Michigan is given:

TABLE 16.—*Monthly mortgage payments by family income groups, 1957 and 1958 surveys* [1] *(nonfarm homeowners with mortgages only)*

[Percent of families]

Monthly mortgage payment	All incomes	Total family income							
		Less than $2,000	$2,000 to $2,999	$3,000 to $3,999	$4,000 to $4,999	$5,000 to $5,999	$6,000 to $7,499	$7,500 to $9,999	$10,000 and over
Less than $30	9	31	35	19	12	7	4	3	3
$30 to $39	8	13	8	16	13	10	6	6	3
$40 to $49	11	10	5	21	14	12	12	8	8
$50 to $59	17	14	16	13	22	22	18	16	7
$60 to $74	20	14	17	19	18	23	23	20	18
$75 to $99	22	8	15	7	17	21	27	28	26
$100 to $149	10	6	4	2	2	5	10	16	20
$150 and over	3	4	(2)	3	2	(2)	(2)	3	13
Total	100	100	100	100	100	100	100	100	100
Estimated number of cases	600	76	65	120	100	250	375	375	375
Percent of owners who have a mortgage	----	17	32	48	57	65	76	71	60
Interpolated median payment	$64	$48	$51	$47	$55	$60	$67	$72	$84

[1] Includes taxes and insurance, even utilities in some cases, not in others. These items are, however, only a small part of total mortgage payments.
[2] Less than 0.5 percent.

Source: 1957 and 1958 surveys of consumer finances.

Note the wide dispersion of monthly payments paid within specific income groups. It is apparent that many families with relatively high income make monthly mortgage payments well below their capacity and, vice versa, many families with low income make monthly mortgage payments well above a level generally considered sound by mortgage lenders.

The same lack of uniformity can be seen from the data in table 17 below. According to these data many families live in homes valued well below what their annual incomes indicate they could afford.

TABLE 17.—*Value of owner-occupied nonfarm homes, by family income groups (1956–58 combined)* [1]

[Percent of families]

Value of home	All incomes	Family income						
		Under $1,000 [2]	$1,000 to $1,999 [2]	$2,000 to $2,999	$3,000 to $3,999	$4,000 to $4,999	$5,000 to $7,499	$7,500 and over
Under $2,500	4	16	11	8	5	4	1	(3)
$2,500 to $4,999	8	19	14	17	15	12	4	2
$5,000 to $7,499	14	30	24	25	21	16	12	4
$7,500 to $9,999	15	11	15	16	20	21	19	9
$10,000 to $12,499	19	15	17	17	18	22	25	16
$12,500 to $19,999	26	6	14	13	16	19	32	36
$20,000 or over	14	3	5	4	5	6	7	33
Total	100	100	100	100	100	100	100	100
Interpolated median	$11,185	$6,250	$7,666	$7,500	$8,625	$9,650	$11,400	$16,475
Number of cases	4,790	224	307	335	368	525	1,383	1,446
Mean (1958 only)	$12,580	$6,700	$9,250	$8,520	$8,550	$10,200	$12,250	$17,830

[1] From the 1956, 1957, and 1958 surveys of consumer finances.
[2] Most of the people in these income groups are old, retired people.
[3] Less than 0.5 percent.

The question raised, therefore, is the capacity of the American people to purchase in accordance with their desires. A clue to the answer to this is an analysis made of the extent to which American families are now making monthly installment payments for various consumer goods other than housing. In a 1958 survey by the University of Michigan, the interviewers found that one out of eight families were paying 20 percent or more of their incomes for installment purchases. This was true among both low-income and middle-income families.

Conclusion

Average family income, representing real purchasing power, should be 22 percent higher in 1970 than in 1960, but despite some "flattening" of the income curve there is no prospect for a significant reduction in the 20 million families and individuals who have current annual incomes of less than $4,000.

The effect of this on housing is to expect the construction of better quality and higher priced homes, corresponding to the 22 percent increase in real family income. However, unless this is accompanied by a building program to supplement the supply of housing for occupancy by low- and moderate-income families, it will leave unresolved the housing problems of many American families. Furthermore, the estimated large number of low-income families by 1970 points up the difficulty of demolishing or otherwise eliminating 4 million units of substandard housing on which is predicated the construction of at least 16 million nonfarm permanent homes during the sixties.

The American people have demonstrated a great desire for better living conditions and a willingness to make the necessary sacrifices to satisfy this desire. The potential purchasing power in this Nation should be adequate to support a demand for a new construction program of 16 million nonfarm units from 1961 to 1970, although greater flexibility in qualifying potential consumers may be required to satisfy this demand.

CREDIT TERMS AND DEMAND FOR RESIDENTIAL CONSTRUCTION

Mr. Ramsay Wood, of the Bureau of Business and Economic Research, University of California, in Los Angeles, Calif., prepared a most thorough and scholarly paper on the subject of credit terms and the demand for residential construction. His views were shared by Mr. S. Durward Badgley, director of real estate and mortgage research of the Mutual Life Insurance Co. of New York. No purpose would be served by attempting to summarize or paraphrase Mr. Wood's conclusions, and that portion of his paper is reproduced below:

> With a few exceptions that will be noted in the analysis of some cases, conclusions or generalizations in this summary and elsewhere in the paper about effects and outcomes under "liberal," "relaxed," or "easier" terms compared with those under "tight" or "less liberal" terms are to be interpreted as referring to alternatives, not to time sequences. That is, we are comparing "what would happen" under one set of credit conditions with "what would happen" under another set, both in the same situation as far as other elements are concerned. We are not, for example, generalizing about market behavior under liberal terms in a depression compared with that under tight terms in a boom.
>
> 1. Directly, a change in credit terms will affect those bidders who use credit, and will affect most those who use most credit.
>
> 2. Indirectly, a change in credit terms will affect those bidders who pay all cash, or a large proportion of cash, by affecting the prices of houses.
>
> Thus, making credit available on easier terms is not analogous to giving everyone a cash gift, for example, or to reducing the prices of houses. On the contrary, easier terms give an immediate advantage to only some bidders, and will usually result in higher prices than would prevail under less liberal terms.
>
> 3. Relaxed credit terms give a short-run advantage to those bidders prepared to pay for a house out of income, and put at a disadvantage those bidders perpared to exchange accumulated assets for a house.
>
> This does not necessarily mean that easier terms give low-income or elderly families, for example, an advantage over the well-to-do or the young. Elderly families frequently, and low-income families sometimes, have appreciable accumulated assets, but meager prospective income. Young families, on the other hand, often have relatively few assets but good prospects for future income.
>
> 4. The extent of these advantages and disadvantages depends to a large extent on the composition of the relaxation of credit terms, as well as on the composition of demand and of supply.
>
> If the relaxation is solely a matter of reducing the monthly payment per $1,000 of mortgage without reducing required downpayments or mortgage interest rates, for example, the advantage to credit bidders may be smaller than if the relaxation takes another form. The effect will also depend in part on the composition of bidders' resources (income and

assets) and on the strength of their preferences for assets other than equity in real estate, and on the prices demanded by sellers.

5. With any given composition of demand and of supply, the credit terms available largely determine the level of values for the standing stock of houses.

6. The level of values established for the standing stock of houses under a new set of credit terms plays a large part in determining the amount of new building that will be done at any given level of construction costs.

7. The level of construction costs plays a large part in determining how much turnover of the standing stock there will be at the level of values for the standing stock established by a new set of credit terms.

The mere fact that bidders in the market are willing to pay as much for a new house as the cost of building it does not mean that the new house will be built. If existing houses that are equally acceptable to the bidders are available at lower prices, the bidders will tend to buy the existing houses. If relaxed credit terms raise the prices of existing houses above the cost of new building, however, bidders will be likely to buy the new and thus encourage building.

Similarly, the existence of a bidder prepared to pay the price demanded by the owner of an existing house does not assure that the existing house will be sold. If the bidder can buy a new house that is equally acceptable at a lower price, he will tend to buy the new house, thus keeping turnover of existing houses below what it would be with higher construction costs.

8. Relaxation of credit terms that results in a level of values for the standing stock substantially above the level of building costs is likely to result in a large and rapid increase in new building, accompanied by a sharp rise in building costs.

A large margin between the price put on existing houses by the going credit terms and the cost of building is likely both to make bidders prefer new to old houses and to require builders to bid resources away from other activities. These two influences tend to work together to result in rising costs. A smaller margin between the level of values for the existing stock and construction costs is likely to induce cost-reducing efficiencies to prevent the margin from being wiped out by market developments.

9. The advantage that a change to liberal terms ordinarily gives credit bidders over cash bidders will tend to result in a greater use of credit than under the tight terms.

This is likely to be so both because a greater number of transactions are likely to involve use of credit, and because prices are likely to be higher, and to require more credit per credit transaction.

10. If one aspect of relaxed credit terms is a lower mortgage interest rate relative to other rates, transactions are likely to take place with smaller downpayments, so that use of credit per transaction is likely to be higher.

If the mortgage interest rate is reduced below the rate of income bidders can earn on funds invested in assets other than real estate equities, there will be a tendency for purchasers of houses to keep their downpayments as low as possible. They will borrow as much as possible at the low mortgage rate in order to be able to earn as much as possible at the higher investment rate.

11. More transactions are likely to take place under liberal terms than under tight terms, at least for a time after the change, with a consequent greater use of credit from this source.

12. If maturities are longer under liberal than under less liberal credit terms, the volume of debt outstanding as a result of any given rate of lending will be greater under the liberal than under the less liberal terms.

Conclusion

Existing law gives considerable discretion to administrative agencies of the Federal Government to cause changes in credit terms for transactions in residential real estate. The principles related in the summary by Mr. Ramsay Wood are generally sound and are recommended to the careful attention of Federal agencies which have this discretion.

Supply Factors

MATERIALS

The prospects are good for an adequate supply of basic building materials to meet the needs of home construction during the sixties. According to testimony from Mr. Joseph L. Fisher, associate director, and Mr. Edward Boorstein, economist, for Resources for the Future, Inc., the only shortage which may develop is in lumber during the late sixties.

Projections of demand for residential building materials by Fisher and Boorstein were based on annual dwelling unit construction of from 1,750,000 to 2,700,000 total farm and nonfarm, permanent and temporary, by 1970. This range is somewhat higher than that projected by other witnesses and used elsewhere in this report. The table on dwelling unit construction follows:

Table 18.—*Projections of dwelling unit construction 1960–70* [1]

[Thousand dwelling units]

	1960	1965	1970
Low	1,150	1,380	1,750
Medium, 1,500 [2]	1,400	1,600	2,100
High	1,600	1,900	2,700

[1] All dwelling units farm and nonfarm, permanent and nonpermanent.
[2] Rough estimate based on estimates for permanent units from Timber Resources for America's Future, U.S. Department of Agriculture, January 1958, p. 379, plus rough allowance for nonpermanent units by us.

When Mr. Boorstein was asked during the hearings to interpret his projection of dwelling construction for the sixties in terms of nonfarm permanent housing as published by the Census Bureau, he stated that his 1970 figure would imply an increase of 30 to 40 percent over present levels, or about 1.7 million units.

Lumber

The most important building material is, of course, lumber. According to the data submitted, lumber requirements should increase from 13 billion board feet in 1952 to 19.4 billion board feet as a medium estimate in 1970. See following table submitted by Mr. Boorstein and Mr. Fisher:

TABLE 19.—*Lumber requirements for new residential construction*

[Billion board feet]

	1952	1960	1965	1970
Low		11.0	12.4	15.4
Medium	13.0	13.4	15.1	19.4
High		16.2	18.8	27.3

These data are based not only on projected new construction but also on a dropping off of the average amount of lumber needed per unit. The medium estimates are based on the average amount of lumber per unit dropping from 9,700 board feet in 1960 to 9,250 board feet in 1970. This does not mean housing units will be smaller, but that substitutions will be found to reduce the average amount of lumber per unit. On the most probable projection, about 20 billion board feet of lumber would be required in 1970, or over 50 percent greater than in 1952.

Total lumber production in the United States in recent years ranged from 36 to 38 billion board feet, with net imports ranging from 1.5 to 3 billion. Residential construction has been accounting for about one-third of total consumption. If residential requirements were to increase to 20 billion board feet and if other uses of lumber in our economy were to expand at the same time, total requirements may be in the neighborhood of 50 billion board feet, or 25 percent higher than current peaks. Whether domestic consumption could expand to this level will depend on the degree of effort of all concerned, including the Federal Government, in working toward substantial improvements in the sources of supply and the instruments of production during the 1960's.

Supplemental data submitted during the hearings from American Forest Products Industries indicated that for the last few years we have been growing more saw timber than we are removing, although for a long number of years the opposite was true. According to the publication, "we are catching up."

Steel

Demand for steel will probably rise from recent levels of about 3 million tons to 4 million by 1970, as shown by the following table:

TABLE 20.—*Projections of fabricated steel required for residential construction: 1960–70*

[Million tons]

1955	1960	1965	1970
	2.4	2.6	3.2
3.0	2.8	3.0	4.0
	3.2	4.0	4.8

Submitted by Mr. Boorstein and Mr. Fisher.

Out of a total annual current production of steel of 120 to 130 million tons, the demands of 3 to 4 million tons for residential construction are small. Therefore, a demand of several times present requirements should not be a problem for the 1960's.

Aluminum

Mr. Fisher and Mr. Boorstein included aluminum in their study of building-material requirements on the assumption that the demand will increase greatly with new techniques and materials developments in the house of the future. They saw no difficulty in meeting an increase in the requirements from 100 million pounds in recent years to 1 billion pounds or more by 1970. Current production of aluminum is about 4 billion pounds.

Prices of construction materials

There will probably be continued pressure on prices of construction materials, especially lumber, which may experience shortages in some particular types during the late 1960's. If so, this would be a continuation of the tendency of lumber prices during recent years to rise faster than the general price level. Increases in the price of materials could have substantial effects on the total cost of housing because materials represent about 40 to 50 percent of total housing costs.

Mr. Boorstein and Mr. Fisher stated that they saw no extraordinary development by way of new cost-reducing technology or new supplies which would change the historic trend of building materials rising in cost more rapidly than costs generally. In a subsequent paper, testimony from the representatives of homebuilders disagreed with this, stating that there is every reason to believe that pending developments in technology and cost-reducing construction procedures would offset price pressures from other sources.

Conclusion

The prospects are good for an adequate supply of basic building materials to meet the needs of residential construction during the sixties. Special types of lumber products may show up in short supply in some areas, but not enough to cause a serious rise in prices.

LAND

Testimony from competent witnesses on the question of availability of land for residential construction during the 1960's indicates no problem of land shortages, but a possible problem of adequate community facilities.

Mr. E. Everett Ashley III, of the HHFA, Mr. Max S. Wehrly of the Urban Land Institute, and Dr. Richard U. Ratcliff of the University of Wisconsin agreed that there is an abundance of raw land for residential use, but there is a shortage of improved land with sewerage and water facilities. Out of total land area of about 3 billion acres in the United States, only 115 million acres are currently being used for community occupancy or for trade and industrial purposes. Even in the most densely populated States there is still plenty of raw land upon which to build. There is a shortage, however, of cheap land near sources of employment and other community services. The cost of this desirable land seems to have risen out of proportion to its intrinsic worth.

The big problem in the future is to find ways and means of expanding community facilities into new areas. A master plan of action should be undertaken on a regional basis or for whole metropolitan areas to coordinate efforts in this undertaking and to minimize inefficient and expensive installations of new facilities. Millions of dollars could be saved and costs of new homes could be substantially reduced if more use were made of areas already served with community facilities rather than opening up entirely new undeveloped areas.

There seems to be serious shortage of capital to properly prepare an adequate supply of improved land. According to Mr. Wehrly, new private dwellings in the 1960's will require 1,900,000 to 2,750,000 acres of land on which to build, and an added 40 percent for streets, recreational areas, school sites, etc., making a total requirement of from 2,500,000 to 3,500,000 acres. At a development cost of $5,000 per acre, the funds needed in the next decade for this purpose would range from $12.5 to $17.5 billion.

An alternative to expensive acquisition of raw land and development in the suburbs is the more efficient use of existing residential areas in the cities. Urban renewal programs have this as one of their objectives. Under urban renewal and slum clearance programs recognition is being given to the valuable assets of land in the city.

Dr. Ratcliff recommended that Federal financial assistance in the community facility field be limited to those areas with a master plan and an approved workable program. This prerequisite would encourage community planning on a large scale and result in the most efficient use of available land for construction purposes. Other Federal and State action could be taken to help solve what homebuilders say is "America's No. 1 problem"—the scarcity of reasonably priced improved sites served by community facilities.

Conclusion

The supply of land for residential development is adequate. The economical development of this land, however, depends upon the availability of community facilities at minimum cost.

An alternative to acquisition and development of raw land in the suburbs is more intensive and efficient use of available areas in the cities made possible by urban renewal programs.

LABOR

According to testimony received from Mr. Cornelius R. Gray of the AFL–CIO, there has been a surplus of labor in the construction field for a long time and he can see no scarcity of either quantity or quality of building tradesmen in the 1960's. The Department of Labor has predicted that skilled craftsmen, about 30 percent of whom are in the building trades, will increase in the magnitude of about 25 percent during the decade of the sixties.

In addition, Mr. Gray predicted continued improvements in productivity. He demonstrated past improvements by pointing to the fact that it takes about the same proportion of annual family earnings to buy the average house today as it did before World War II. When one considers the improvements in size, conveniences, built-in features, and, more importantly, the increased cost of building materials and land, this seems to represent a significant increase in productivity.

Mr. Gray presented data on the unemployment of construction workers as follows:

TABLE 21.—*Unemployment rate in construction (by quarters and by years: 1954–58)*

	1st quarter	2d quarter	3d quarter	4th quarter	Average
1958	19.9	13.1	10.5	11.9	13.9
1957	14.4	8.9	6.7	10.0	10.0
1956	13.7	7.4	5.2	7.4	8.4
1955	15.1	8.6	5.7	7.4	8.3
1954	14.5	8.1	7.8	9.5	10.3

Source: U.S. Bureau of Census.

The seasonal unemployment problem can be seen by looking at the unemployment rate during one year.

TABLE 22.—*Unemployment rate in construction (by month, 1958)*

	Percent		Percent
January	18.6	July	11.3
February	21.2	August	10.5
March	20.0	September	9.6
April	16.2	October	9.1
May	11.6	November	11.1
June	11.7	December	15.7

Source: U.S. Bureau of Census.

These figures indicate a surprisingly high unemployment rate among construction workers and give some indication of the unused potential in the building industry. A better organized industry with a smooth flow of work would eliminate this unemployment without causing price rises.

Dr. Emerson P. Schmidt of the chamber of commerce agreed in part with Mr. Gray when he stated that no effective economic demand has ever been left unfulfilled for an extended period because of the scarcity of common or skilled labor. He made it clear, however, that this would be true only in a free market and that artificial forces which would overstimulate housing starts might bring about a shortage of labor. He said that any short-run shortages of labor could be mitigated by accelerated training, some shifting of personnel, shifting of design or components, and increased money incentives, or some combination of these. He warned, however, that on a long-run basis, home construction could be retarded by labor shortages if production rises sharply through overstimulation.

Conclusion

Labor supply for residential construction does not appear to be a problem for the sixties. Local shortages in particular skills may occur from time to time but unless there are sporadic sharp increases in demand for labor because of instability of construction activity, no overall shortages are expected.

TECHNOLOGY AND RESEARCH

Technological improvements in materials, better construction techniques, and more efficient design can result in better homes in the future without a change in price, according to the testimony from Dr. Ralph J. Johnson, director of housing research in the National Association of Home Builders, and Mr. George Price, president, National Homes Corp. Both of these men are qualified experts and speak with authority in the field of housing technology and research.

Dr. Johnson testified that since World War II there has been more change in the character of the homebuilding industry than during all preceding history. Today's homebuilders must become experts in financing, land development, design, construction, and merchandising. In recent years homebuilding has evolved from a craft to an industry. The builder today is in many ways a manufacturer, and is likely to continue as such in the future.

The results of technological improvements in home construction have already brought about some reductions in cost and improvements in quality. A recent study of the Department of Commerce stated that:

> Among the gains made by homebuilders were the application of business-management principles to the extent of improving production engineering, the shortening of erection time, the decline in the percent of profit, the manufacture of component parts, the application of mechanization, the precutting and prefinishing of materials, the development of systems of roof framing such as trusses which permit nonload-bearing interior partitions, and modular dimensioning. These economies come close to paying for such new features as built-in appliances and air conditioning, improved plumbing and wiring, better quality windows and doors, double-glass windowpanes, additional closets, fireplaces, more masonry, and expanded cabinetry of more expensive materials.

Dr. Johnson claims all of this is only the beginning of industrialization of the homebuilding process. He predicts that this process will continue and provide even higher values in new homes in the decade of the sixties.

Related to improvements in materials and construction techniques are other subjects which will play a big part in the cost and quality of the home in the future. The most important of these is the critical factor of land use and community facilities. While the cost per square foot of the house has increased only modestly in the past decade, the cost of land has more than quadrupled and the cost of land development has about tripled. Before World War II a finished lot represented about 10 percent of the price of the house, whereas today it represents about 25 percent. There is nothing in sight which would cause a reduction in this ratio. The greatest single contribution which would act to reverse this trend would be the development of a satisfactory individual sewage disposal system which would free the land of its most expensive utility tie; namely, the sanitary sewer. Even more revolutionary would be the construction of a house completely free of the land and independent of all utilities—water, sewerage, electricity, and telephone. For example, it is now possible to convert solar energy directly to electrical energy, but no technique has yet been contrived for storing this energy efficiently and economically. Likewise, the harnessing of atomic energy for household use is a distinct possibility for the future, although this will probably not occur in the sixties.

The key to success of these new techniques, which would contribute much to a well-housed America, is research. There is a serious lack of information on the fundamental science of homebuilding. The witnesses before the subcommittee were almost unanimous in urging

more research from technological, social, and economic points of view. Without more basic study and research the evolution of craft homebuilding to industrial homebuilding will continue its slow, painstaking and costly process.

In addition, Dr. William Wheaton deplored the lack of an adequate research program on such things as financing costs, mortgage market problems, inventory analysis, market research, and related subjects without which our methods for providing shelter are very little advanced over 25 years ago.

Mr. George Price suggested the following as an answer for overcoming some of the apathy in developing and using new techniques in homebuilding:

1. Stabilize the homebuilding industry. This would be a great incentive to continuous and long-range research.
2. Review and revise existing performance criteria for the evaluation of new methods.
3. Provide Federal sponsorship of research through universities and research organizations.
4. Encourage standardization of regulations.
5. Establish an incentive system for inventiveness, ingenuity, and production efficiency within the industry.

Conclusion

If new homes of the sixties are to improve in quality in conformity with other great advances anticipated in our economy, and if advanced technology is to compensate for increases in the prices of developed land and materials, a comprehensive and aggressive research program to develop new and better techniques in all phases of residential construction is essential.

In addition to such technical research, studies should be undertaken on other important phases of our shelter problem—marketing, financing, and consumer abilities and desires.

MORTGAGE LOAN REQUIREMENTS

Additional mortgage funds amounting to $140 to $160 billion will be needed to finance new residential construction during the 1960's, according to estimates made in papers submitted to the subcommittee.

Dr. David L. Grove, Bank of America, San Francisco, Calif., estimated needs at $141 billion. In arriving at his estimate, Dr. Grove assumed a new residential construction expenditure of $235 billion for the decade of the sixties. He assumed nonfarm starts of 1.2 million per year requiring average annual outlays of $21 billion for the first 5 years of the decade, and starts of 1.4 million and expenditures of $26 billion per year for the last 5 years of the decade.

To the extent that starts exceed the number assumed by Dr. Grove, the mortgage requirements would be much higher than $141 billion.

Basic to Dr. Grove's estimate was the assumption of a continuing relationship of 60 percent between new mortgage funds and new construction expenditures. He pointed out that this relationship existed throughout the period 1948–57 and assumed that it would continue into the future.

Dr. Grove recognized the difficulties in making even a rough approximation of the probable requirements of new mortgage money for the future. The demand for new mortgage funds is influenced by many factors and the relationship between new construction expenditures

and mortgage debt may have been coincidence. The computation used by him is as follows:

TABLE 23.—*Computation of new mortgage requirements for decade, 1961–70*

Nonfarm starts	million	13
Total new residential construction costs	billion	$235
Mortgage requirements as percent of cost of new residential construction	percent	60
Estimated new mortgage requirements	billion	$141

Source: Paper submitted by Dr. David L. Grove.

New mortgage funds are added to the total debt as a result of many variable economic, demographic, social, and political forces. It is practically impossible to evaluate these forces to give a precise estimate of future need. All that can be done is to project current developments into the future and make an educated guess on the net effect of these factors. Dr. Grove did this in making his estimate of $141 billion in new loan requirements. The other witnesses before the subcommittee stated that the funds now flowing will be less than needed but did not venture a quantitative estimate of the requirements.

The Federal Home Loan Bank Board submitted an analysis to demonstrate that funds expected to flow into new mortgages through savings and loan associations indicate a supportable volume of private housing starts of 14 to 16 million for the decade of the 1960's. In arriving at these figures the Board estimated that savings and loan associations would require from $66 to $76 billion of new mortgage money to finance from 4.3 to 4.9 million new units. Financing for the remaining 10 to 11 million new units would come from other sources, which would require at a minimum $100 billion of mortgage money.

The table below, submitted by the Federal Home Loan Bank Board, shows the data the Board used in arriving at the supportable volume of 14 to 16 million new nonfarm starts for the coming decade.

TABLE 24.—*All savings and loan associations, estimates of potential growth*

	Amounts in billions (constant dollars 1958–70)						Number construction loans (millions)	Percent savings and loan construction to housing starts	Private housing starts (million)
	Net savings inflow	Mortgage repayments	Total main sources	Increase in mortgages held	New mortgages				
					Total	Construction			
1951–55	18.2	22.3	40.5	17.8	40.1	13.4	1.5	27	5.7
1956–60 (estimated)	29.0	35.2	64.2	28.0	62.8	22.6	1.9	31	6.0
Total 1951–60 (estimated)	47.2	57.5	104.7	45.6	102.9	36.0	3.4	29	11.7
					Potential capacity [1]			Assumed share [2]	Supportable volume [2]
1961–70 (estimated) available savings assumed:									
A. Light	70.0	93.0	163.0	66.0	159.0	53.0	4.3	31	14
B. Medium	75.0	101.0	176.0	71.0	172.0	57.0	4.6	31	15
C. Heavy	80.0	108.0	188.0	76.0	184.0	61.0	4.9	31	16

[1] Allowance made for maintaining present liquid asset position; no allowance for change in borrowing position, or average size of loan made.
[2] Assumes maintenance of 1956–58 average ratio of construction loans to housing starts.

The last column of the preceding table contains the estimated housing units capable of construction based upon the assumptions and relationships previously mentioned. Under category A, 14 million new private housing units would be started. This would represent a 20 percent increase over the total number of units constructed during the 1950's. The corresponding figures under category B would be 15 million, a 28 percent increase and, under category C, 16 million, a 37 percent increase over the current decade.

In reviewing the method used by Dr. Grove and the Federal Home Loan Bank Board in arriving at approximations of future mortgage requirements, one is impressed by the dearth of dependable data from which projections can be made into the future. This is no reflection on the technicians preparing the estimates, but primarily reflects the lack of basic information on the various elements that contribute to additions to mortgage debt. There are two basic series of data on which activity in the mortgage market is based—the "Nonfarm Mortgage Recordings of $20,000 or Less" and "The Mortgage Debt Outstanding." (See tables below.) These two series do not provide complete information on the flow of investment funds into mortgage portfolios. For example, according to the mortgage recording series, more than $27 billion of nonfarm mortgages of $20,000 or less were recorded in 1958. At the same time, the mortgage debt series indicates that the net increase in nonfarm debt for one- to four-family houses amounted to $10.1 billion in 1958. The difference between these two figures of about $17 billion would presumably be mortgage money recovered from existing mortgage loans and reinvested in new mortgages. This is true only approximately, because the series are based on different criteria which present many problems to the analyst. Even the professionals in the field of mortgage finance find difficulty in attempting to distinguish between such terms as "1- to 4-family houses" and "multifamily properties" or "recordings of $20,000 or less" (there is no national series on recordings of over $20,000). The distinction between farm and nonfarm is another source of confusion. Papers submitted for the study sometimes referred to residential mortgages, other times to nonfarm mortgages, and in some cases to mortgages on all properties including commercial.

The tables below are published by the Federal Reserve Board. None of the columns provides data for the residential universe intended in the study, but they are presented here to provide a good overall view of the various elements involved in the study of mortgage activity.

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TABLE 25.—*Mortgage debt outstanding, by type of property mortgaged and type of mortgage holder*

[In billions of dollars]

End of year or quarter	All properties				Nonfarm							Farm		
	All holders	Financial institutions	Other holders		All holders	1- to 4-family houses			Multifamily and commercial properties [1]			All holders	Financial institutions	Other holders [2]
			Selected Federal agencies	Individuals and others		Total	Financial institutions	Other holders	Total	Financial institutions	Other holders			
1941	37.6	20.7	2.0	14.9	31.2	18.4	11.2	7.2	12.9	8.1	4.8	6.4	1.5	4.9
1945	35.5	21.0	.9	13.7	30.8	18.6	12.2	6.4	12.2	7.4	4.7	4.8	1.3	3.4
1951	82.3	59.5	2.0	20.8	75.6	51.7	41.1	10.7	23.9	15.9	8.0	6.7	2.6	4.1
1952	91.4	66.9	2.4	22.1	84.2	58.5	46.8	11.7	25.7	17.2	8.4	7.3	2.8	4.4
1953	101.3	75.1	2.8	23.5	93.6	66.1	53.6	12.5	27.5	18.5	9.0	7.8	3.0	4.8
1954	113.7	85.7	2.8	25.2	105.4	75.7	62.5	13.2	29.7	19.9	9.8	8.3	3.3	5.0
1955	129.9	99.3	3.1	27.5	120.9	88.2	73.8	14.4	32.6	21.8	10.8	9.1	3.6	5.4
1956	144.5	111.2	3.6	29.7	134.6	99.0	83.4	15.6	35.6	23.9	11.7	9.9	3.9	6.0
1957	156.6	119.7	4.7	32.1	146.1	107.6	89.9	17.7	38.5	25.8	12.7	10.5	4.0	6.5
1958	171.9	131.5	4.8	35.6	160.7	117.7	98.5	19.2	43.0	28.8	14.2	11.2	4.2	7.0
1957—September	153.7	117.7	4.5	31.6	143.3	105.7	88.5	17.2	37.5	25.2	12.4	10.4	4.0	6.4
December	156.6	119.7	4.7	32.1	146.1	107.6	89.9	17.7	38.5	25.8	12.7	10.5	4.0	6.5
1958—March	159.1	121.5	4.9	32.8	148.5	109.1	91.1	18.1	39.3	26.4	13.0	10.6	4.1	6.6
June	162.8	124.5	4.6	33.7	151.9	111.5	93.3	18.2	40.4	27.1	13.3	10.9	4.1	6.8
September	167.1	127.9	4.6	34.6	156.0	114.5	95.9	18.6	41.5	27.8	13.7	11.1	4.2	6.9
December	171.9	131.5	4.8	35.6	160.7	117.7	98.5	19.2	43.0	28.8	14.2	11.2	4.2	7.0
1959—March [3]	175.9	134.3	5.3	36.3	164.4	120.5	100.7	19.8	43.9	29.3	14.6	11.5	4.3	7.2
June [3]	181.4	138.4	5.8	37.1	169.5	124.4	103.9	20.5	45.2	30.1	15.0	11.8	4.4	7.4
September [3]	186.6	142.3	6.3	38.0	174.5	128.0	106.8	21.2	46.5	31.0	15.5	12.1	4.5	7.6

[1] Derived figures, which include negligible amount of farm loans held by savings and loan associations.

[2] Derived figures, which include debt held by Federal land banks and Farmers Home Administration.

[3] Preliminary.

NOTE.—Figures for 1st 3 quarters of each year are Federal Reserve estimates. Financial institutions represent commercial banks (including nondeposit trust companies but not trust departments), mutual savings banks, life insurance companies, and savings and loan associations. Federal agencies represent HOLC, FNMA, and VA (the bulk of the amounts held by HOLC, in 1941 and 1945; by FNMA in other periods shown). Other Federal agencies (amounts small and separate data not readily available currently) are included with individuals and others.

Sources: Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, Institute of Life Insurance, Departments of Agriculture and Commerce, Federal National Mortgage Association, Veterans' Administration, Comptroller of the Currency, and Federal Reserve.

TABLE 26.—*Nonfarm mortgage recordings of $20,000 or less*

[In millions of dollars]

Year	Savings and loan associations	Insurance companies	Mutual savings banks	Commercial banks	Individuals and others	Total
1939	1,058	287	143	891	1,128	3,507
1940	1,283	334	170	1,006	1,238	4,031
1941	1,490	404	218	1,166	1,454	4,732
1942	1,170	362	166	886	1,359	3,943
1943	1,237	280	152	753	1,439	3,861
1944	1,560	257	165	878	1,746	4,606
1945	2,017	250	217	1,097	2,069	5,650
1946	3,483	503	548	2,712	3,343	10,589
1947	3,650	847	597	3,004	3,631	11,729
1948	3,629	1,016	745	2,663	3,829	11,882
1949	3,646	1,046	750	2,446	3,940	11,828
1950	5,060	1,618	1,064	3,365	5,072	16,179
1951	5,295	1,615	1,013	3,370	5,112	16,405
1952	6,452	1,420	1,137	3,600	5,409	18,018
1953	7,365	1,480	1,327	3,680	5,895	19,747
1954	8,312	1,768	1,501	4,239	7,154	22,974
1955	10,452	1,932	1,857	5,617	8,626	28,484
1956	9,532	1,790	1,824	5,458	8,475	27,088
1957	9,217	1,472	1,430	4,264	7,861	24,244
1958	10,516	1,460	1,640	5,204	8,568	27,388
1959	13,094	1,523	1,780	5,832	10,006	32,235

The above series on mortgage activity do not provide the information needed regarding the flow of mortgage money. For example, there is little known about the amount of mortgage money used for newly built units compared with existing housing. Nor do we have accurate data on the size of the mortgage debt paid off through repayments and prepayments.

In projecting the mortgage credit requirements for the next decade it is not enough to know about the volume of credit needed for new construction. Without knowledge of these other components of mortgage flow any estimate of the total would be meaningless.

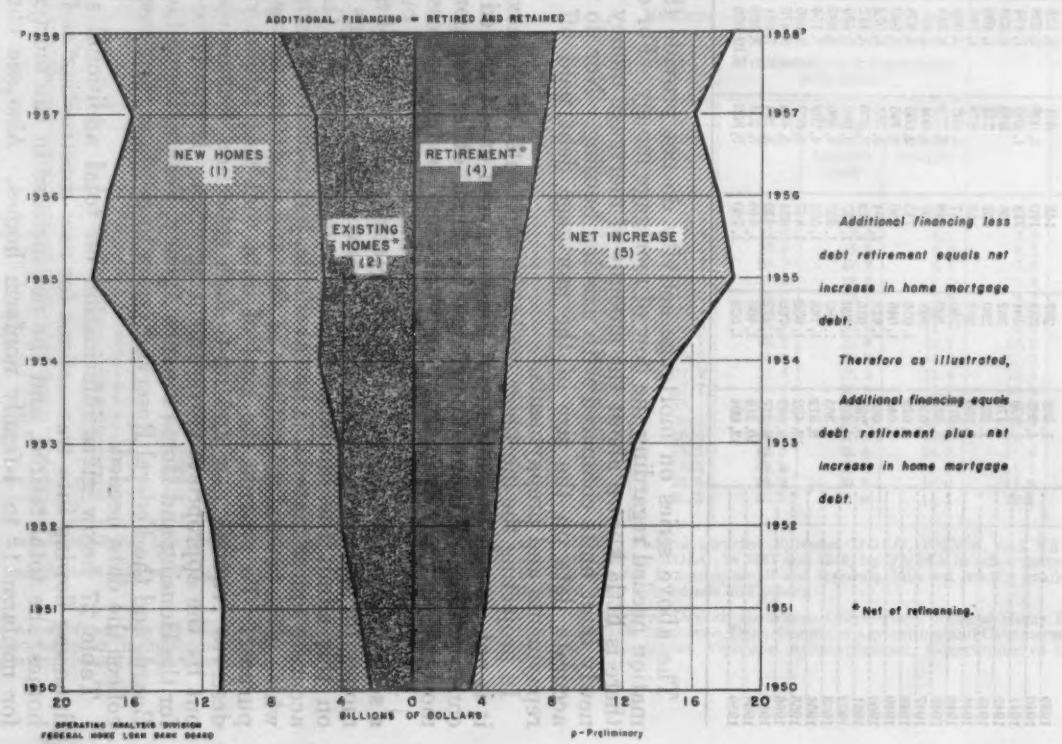
The Federal Home Loan Bank Board has recently begun publishing a series which provides rough approximations of the flow of mortgage money for financing 1- to 4-family homes. The technicians working on this admit the limitations of such data and regret that more accurate source material is not available, but defend the series as one which gives general magnitudes of flow and, therefore, serves a useful purpose. To provide the kind of data that this subject rightfully deserves requires new and up-to-date collection techniques carried out by the appropriate Government agencies. It should be possible for the Housing and Home Finance Agency, Federal Home Loan Bank Board, and the Federal Reserve System to combine their resources to collect the data needed.

Table 27 below gives information on total additional mortgage financing flowing into transactions for new construction and existing homes, the total retired, and the net increase in the mortgage debt for nonfarm 1- to 4-family nonfarm homes. Also see chart 2 on page 36.

CHART 2

1-4 FAMILY NONFARM HOMES

MORTGAGE FINANCING AND INCREASE IN MORTGAGE DEBT



Additional financing less debt retirement equals net increase in home mortgage debt.

Therefore as illustrated,

Additional financing equals debt retirement plus net increase in home mortgage debt.

*Net of refinancing.

TABLE 27.—*Mortgage financing and increase in mortgage debt, 1- to 4-family nonfarm homes*

[Millions of dollars]

Dec. 31	Additional financing		Total	Retired and retained	
	New homes	Existing homes [1]		Retirement [1]	Net increase
	(1)	(2)	(3)	(4)	(5)
1950	8,646	2,283	10,929	3,378	7,551
1951	7,739	3,029	10,768	4,227	6,541
1952	7,456	4,030	11,486	4,697	6,789
1953	8,494	4,197	12,691	5,097	7,594
1954	9,573	5,371	14,944	5,361	9,583
1955	13,254	5,109	18,363	5,790	12,573
1956	12,126	5,373	17,499	6,712	10,787
1957	10,465	5,635	16,100	7,520	8,580
1958 [2]	10,641	7,670	18,311	8,041	10,270

[1] Net of refinancing.
[2] Preliminary.

From these data it would appear that the net increase in mortgage debt is equal, in general, to the mortgages recorded for new construction. If this relationship were to continue into the 1960's a volume of new construction of 16 million nonfarm units, requiring an average mortgage of $10,000 at 1958 prices and 1958 experience, would imply additional new debt of at least $160 billion of new money or about 60 percent more than during the 1950's.

This estimate assumes, of course, that repayments and prepayments of mortgages will continue to equal approximately the amount of mortgage money flowing into the financing of existing construction. To give some idea of the complexity of evaluating such a flow, refer to chart 3 on page 38 prepared by the FHLBB on gross debt retirement. It is interesting to note that the gross retirement is about double the net retirement. For every $2 of mortgage money paid off (repayed or prepayed) about $1 was the result of refinancing and the other $1 became available to finance a new mortgage. Practically all of this $1 was used to finance new purchases of existing construction. In 1958, gross retirement of debt for 1- to 4-family nonfarm homes amounted to $17.1 billion. About $9.1 billion of that total was used for refinancing existing housing, about $7.7 billion was used to finance new purchases of existing homes, and about $0.3 billion was used to finance new homes.

Conclusion

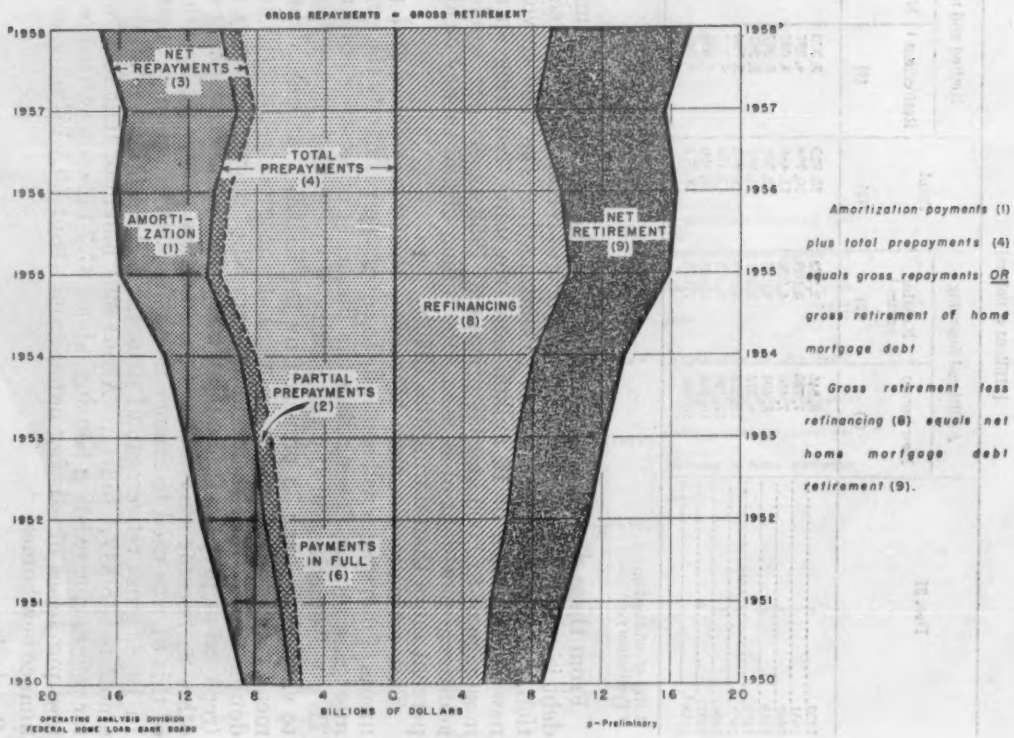
New funds required to finance 16 million new permanent nonfarm units in the sixties are estimated at $160 billion, or about 60 percent greater than the quantity used during the past decade. The need for these funds will vary as home starts vary, increasing from about $11 billion in 1961 to about $20 billion by 1970.

These estimates assume that mortgage funds to finance existing home purchases will come from repayments and prepayments of existing mortgages.

CHART 3

1-4 FAMILY NONFARM HOMES

GROSS MORTGAGE DEBT RETIREMENT



Amortization payments (1) plus total prepayments (4) equals gross repayments OR gross retirement of home mortgage debt

Gross retirement less refinancing (8) equals net home mortgage debt retirement (9).

SUPPLY OF MORTGAGE CREDIT

The supply of mortgage credit for nonfarm residential construction in the decade of the sixties will depend on many variables but could easily reach an amount 50 percent greater than the approximately $100 billion of new residential mortgage credit used in the fifties. This could occur if the past rate of savings continues and if the proportion flowing to residential construction continues.

Mr. Saul B. Klaman, economist, National Association of Mutual Savings Banks, estimated that new flows of residential mortgage credit would amount to $160 billion during the decade, provided that savings flowing into financial institutions were to continue at about the same rate as the past decade and that the past policy of financial institutions toward mortgage investments were to continue. He warned, however, that this is an "outside" figure which depends on the continuation of many "unusual circumstances" of the past decade which are not likely to prevail in the decade ahead unless special action is taken.

Dr. David L. Grove, economist, Bank of America, National Trust & Savings Association, estimated that new mortgage funds for financing home purchases would amount to $141 billion for the sixties provided mortgages could claim about 73 percent of the increase in the pool of funds in savings institutions. According to Dr. Grove this would require an unprecedentedly high share (nearly 65 percent) of the *total* pool of savings.

The table, shown below, furnished the subcommittee by Dr. Grove, illustrates the increase in savings and the ratio of residential mortgage debt to total savings. It also shows Dr. Grove's estimates for the future, which is one of the few projections that the subcommittee received.

TABLE 28.—*Selected individual savings, residential debt, and residential construction*

[Values in billions of dollars]

Year	Savings accounts and life insurance reserves [1]			Nonfarm residential mortgage debt				Total, nonfarm residential construction
	Total, end of year	Increase		Outstandings, end of year	Increase		Ratio to total savings	
		Total	As percent of new construction		Total	As percent of increase in savings accounts and life insurance reserves		
1948	115.5	5.4	53.5	41.5	5.8	107.4	0.36	10.1
1949	121.2	5.7	59.4	46.5	5.0	87.7	.38	9.6
1950	126.8	5.6	39.7	54.9	8.4	150.0	.43	14.1
1951	134.6	7.8	62.4	62.5	7.6	97.4	.46	12.5
1952	146.3	11.7	91.4	69.6	7.1	60.7	.48	12.8
1953	158.5	12.2	88.4	77.3	7.7	63.1	.49	13.8
1954	171.9	13.4	87.0	87.1	9.8	73.1	.51	15.4
1955	184.8	12.9	69.0	100.1	13.0	100.8	.54	18.7
1956	198.9	14.1	79.7	111.5	11.4	80.9	.56	17.7
1957	215.0	16.1	94.7	120.5	9.0	55.9	.56	17.0
1960	264.0	16.6	80.7	154.0	11.1	66.9	.58	18.5
1965	352.0	19.1	83.8	216.0	13.7	71.7	.61	22.8
1970	457.0	22.3	79.6	295.0	16.8	75.3	.65	28.0
1948–57	----------	104.9	74.0	----------	84.8	80.8	----------	141.7
1961–70	----------	193.0	82.1	----------	141.0	73.1	----------	235.0

[1] Includes savings accounts in savings associations, mutual savings banks, commercial banks, postal savings, and credit unions. Private pension reserves are not included.

Source: Financial data—Monthly Labor Review, October 1957 (1948–56); 1957 estimated. Construction expenditures—Survey of Current Business, July 1958.

It will be noted from the above table that the ratio of mortgage debt to total savings increased from 36 percent in 1948 to 56 percent in 1957. It is interesting to note also that the outstanding nonfarm residential mortgage debt is expected in this tabulation to reach $295 billion in 1970, or more than seven times what it was in 1948, and that the ratio to savings will move up to 65 percent. Dr. Grove's figures indicate that total residential construction in the decade of the 1960's will cost $235 billion, compared with $141.7 billion for the 10 years 1948–57.

Fundamental to Dr. Grove's estimate of new available mortgage funds is his assumption of an increase of $193 billion in savings accounts and life insurance reserves—from $264 billion in 1960 to $457 billion in 1970. His figures assume that the gross national product (GNP), in 1958 dollars, will reach $675 billion by 1970, and that the ratio of personal savings to disposable personal income will average around 7 percent. To the extent that the GNP grows more or less rapidly than assumed by Dr. Grove, the amount available from savings will be similarly affected. Many estimates of GNP for 1970 are above $700 billion and the estimate made by the National Conference Board goes as high as $750 billion. Similar variation could occur in the percent of disposable personal income expected to go into savings.

Mr. Klaman also pointed out the many variables which contribute to the availability of mortgage funds. The principal sources of such funds are four types of financial institutions: Savings and loan associations, mutual savings banks, life insurance companies, and commercial banks. The inflow of savings to these institutions and their policies on investing in mortgages are vital to the total volume of mortgage credit. The table below shows the activity of these institutions over the 10-year period 1948–57.

TABLE 29.—*Residential mortgage loan investments of main types of financial institutions*

[Amounts in billions of dollars]

Type of lender	Residential debt outstanding Dec. 31, 1957		Net flows 1948–57	
	Amount	Percent	Amount	Percent
All lenders	121.3	100.0	87.5	100.0
Main financial institutions	101.5	83.7	76.9	87.9
Savings and loan associations	39.3	32.4	30.6	35.0
Life insurance companies	26.1	21.5	21.0	24.0
Mutual savings banks	19.0	15.7	15.1	17.3
Commercial banks	17.1	14.1	10.2	11.7
All other lenders	19.8	16.3	10.0	12.8

Source: Board of Governors of the Federal Reserve System, and Saul B. Klaman, "The Volume of Mortgage Debt in the Postwar Decade," op. cit., tables 16–19, and 37–40.

As of November 1959, the total assets of these institutions amounted to $451.4 billion. In 1958 alone, assets increased by $32 billion, and there is every reason to believe that this rate of growth will continue during the next 10 years.

The other important variable in estimating the future supply of mortgage credit is the proportion of assets of these institutions which

can reasonably be expected to flow into mortgages. The table below shows the proportions for each type of financial institution as of December 31, 1957.

TABLE 30.—*Relationship of mortgage loans to total assets of main types of financial institutions: Dec. 31, 1957*

[Amounts in billions of dollars]

Type of financial institution	Total assets	Percentage of assets in—	
		Total mortgages	Residential mortgages
Savings and loan associations	48.3	83.0	81.4
Mutual savings banks	35.2	60.2	54.0
Life insurance companies	101.0	34.9	25.8
Commercial banks	222.7	10.5	7.7

Source: Board of Governors of the Federal Reserve System and National Bureau of Economic Research.

One can only speculate whether this proportionate share of assets flowing into mortgages will continue into the sixties. Other more competitive uses of capital funds may attract investments into other types of investments. Such types which compete with mortgage credit are funds for corporate securities, State and municipal obligations, and Federal obligations. Mr. Klaman submitted the following table which shows how mortgage credit competed over the period 1948–57 with other capital market securities.

TABLE 31.—*Net flow of funds into capital market securities*

[Amounts in billions of dollars]

Year	Net capital market flows [1]	Residential mortgage flows	
		Amount	Percent of total net capital market flows
1948	15.6	5.9	37.8
1949	15.9	5.3	33.3
1950	17.4	8.7	50.0
1951	18.7	7.8	41.7
1952	24.7	7.5	30.4
1953	26.1	8.2	31.4
1954	25.3	10.2	40.3
1955	28.2	13.4	47.5
1956	26.9	11.4	42.4
1957	28.6	9.2	31.8
1948–57	227.4	87.6	38.5

[1] Includes flows of funds into corporate securities, State and municipal, and Federal obligations, and mortgages.

Source: Board of Governors of the Federal Reserve System and National Bureau of Economic Research

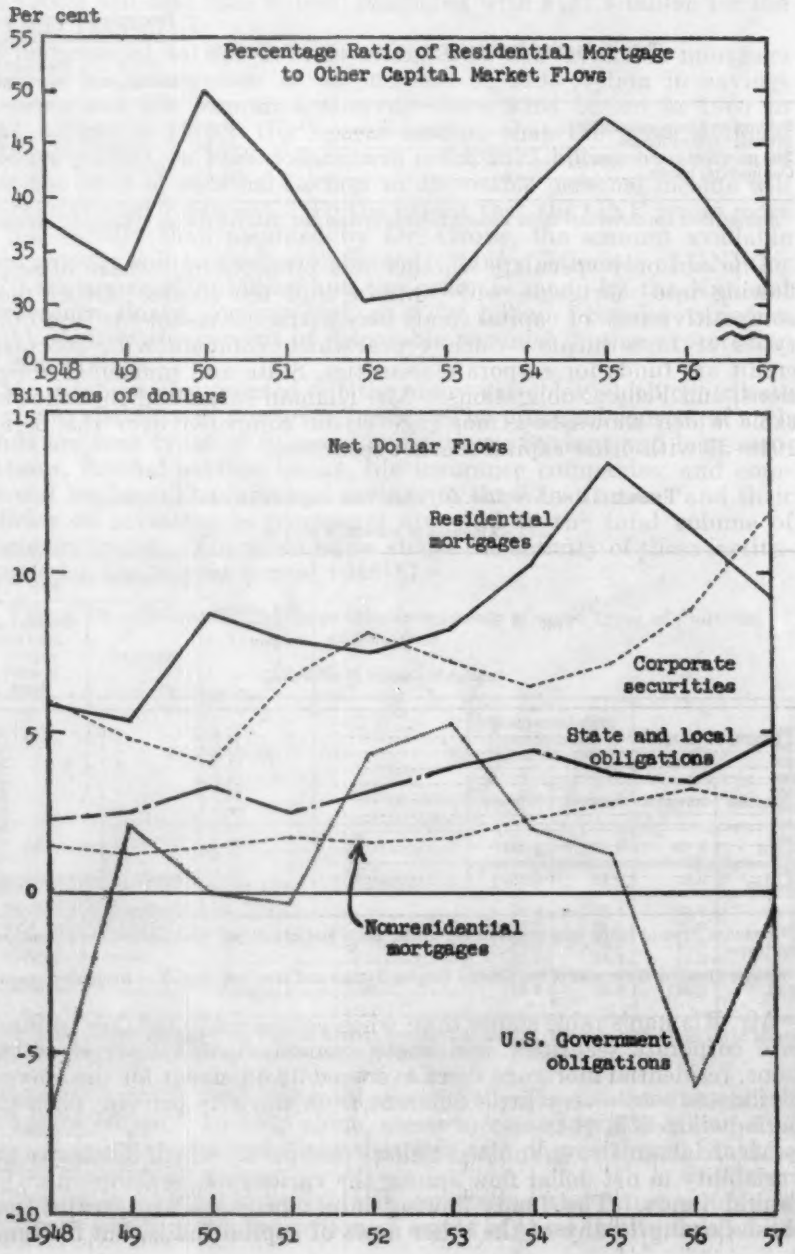
Mr. Klaman's table shows that, when compared to the flow of funds into corporate securities, and State, municipal, and Federal obligations, residential mortgage flows averaged 38.5 percent for the 10-year period 1948–58—very little different from the 37.8 percent when the period started in 1948.

Mr. Klaman also submitted a chart (see p. 42) which illustrates the variability in net dollar flow among the various major competitors for capital funds. The funds flowing into mortgages are greater than those flowing to any of the other users of capital funds, but fluctuate

much more radically than other items except, of course, long-term Government bond issues. To the extent that these other users can attract more capital in the future, the flow of capital into mortgages can be seriously retarded.

CHART 4

Net Annual Flows of Capital Funds, 1948-1957



There seemed to be a general feeling among most witnesses that the demand for housing, which admittedly will be great over the next decade, must be met and that the growing economy of the Nation can and should absorb it. There was also general agreement that the Federal Government, through FHA-insured or VA-guaranteed loans, the Federal Home Loan Bank Board, and the FNMA will undoubtedly contribute to the required increase in the flow of mortgage credit from the general capital pool.

To the extent that the mortgage credit flow may need stimulation in the sixties to assure an adequate and stable flow of funds, there seemed to be considerable support for improving the existing legislative tools to accomplish this purpose. There was also support for looking to other potential sources of mortgage funds. The table below provides a list of financial institutions with assets totaling $121 billion in 1956 which carry only $2.7 billion in mortgage loans.

TABLE 32.—*Relationship of mortgage loans to total assets of miscellaneous types of financial institutions*

[Dollars in millions]

Type of institution	Dec. 31, 1956			Dec. 31, 1947		
	Total assets	Mortgage loans		Total assets	Mortgage loans	
		Amount	Percent		Amount	Percent
Personal trust funds	$75,000	$1,490	2.0	$48,000	$1,170	2.4
Fire, casualty, and marine insurance companies	22,501	160	.7	10,371	69	.7
Noninsured pension funds	17,654	285	1.6	4,276	30	.8
Credit unions	3,271	271	8.3	701	44	7.4
Fraternal orders	2,669	503	18.9	1,880	184	10.2
Total	121,010	2,709	2.2	67,228	1,407	2.4

Source: Board of Governors of the Federal Reserve System, and Raymond W. Goldsmith, Financial Intermediaries in the American Economy Since 1900, supplementary appendixes, National Bureau of Economic Research, New York, 1958. The 1947 figure for total assets of personal trust funds is an interpolation of Goldsmith's estimates for 1945 and 1949.

Several witnesses pointed out the possibility of attracting more of the above funds for investment in mortgage loans. One of the greatest sources of new credit are the uninsured pension funds. These funds are quadrupled in 10 years and are likely to continue growing in the years ahead. Several witnesses proposed new devices for making mortgage investments more attractive to the investors of pension funds.

Conclusion

A supply of mortgage funds for residential construction amounting to an estimated $160 billion will be available for the decade of the sixties only if the past rate of savings and the proportion flowing into mortgages continues as in the past decade. This is not likely to occur unless positive action is taken to assure it. New sources of credit may have to be used, and new financial instruments may be needed to insure a required flow of $160 billion.

MONETARY POLICY AND THE FLOW OF HOME MORTGAGE CREDIT

Monetary policy established by the Federal Reserve System and influenced by Federal fiscal policy is intended to make possible a flow of credit and money that will foster orderly economic growth and stability. The flow of home mortgage credit is sensitive to monetary policy and expands or contracts in response to changes in this policy. Unfortunately, in recent years, this response has been exaggerated, both during periods of credit restraint and during periods of credit

ease, and the flow of home mortgage credit has been most unstable. While overall production fluctuates in some degree in accordance with changing economic conditions, housing construction has such wide variations that it tends to disrupt the entire homebuilding industry. Chart 5 opposite demonstrates the extreme variability of this one segment of the economy in relation to the overall economic trend as reflected by the index for industrial production.

Table 33 below provides data on housing starts since 1920.

TABLE 33.—*Estimated number of new dwelling units started in nonfarm areas*

[Thousands of units]

	Privately owned	Publicly owned	Total nonfarm	1 family	Units in 2 or more family structures
1920	247.0	----------	247.0	202.0	45.0
1921	449.0	----------	449.0	316.0	133.0
1922	716.0	----------	716.0	437.0	279.0
1923	871.0	----------	871.0	513.0	358.0
1924	893.0	----------	893.0	534.0	359.0
1925	937.0	----------	937.0	572.0	365.0
1926	849.0	----------	849.0	491.0	358.0
1927	810.0	----------	810.0	454.0	356.0
1928	753.0	----------	753.0	436.0	317.0
1929	509.0	----------	509.0	316.0	193.0
1930	330.0	----------	330.0	227.0	103.0
1931	254.0	----------	254.0	187.0	67.0
1932	134.0	----------	134.0	118.0	16.0
1933	93.0	----------	93.0	76.0	17.0
1934	126.0	----------	126.0	109.0	17.0
1935	215.7	5.3	221.0	183.0	38.0
1936	304.2	14.8	319.0	244.0	75.0
1937	332.4	3.6	336.0	267.0	69.0
1938	399.3	6.7	406.0	317.0	89.0
1939	458.5	56.5	515.0	399.0	116.0
1940	529.6	73.0	602.6	485.7	116.9
1941	619.5	86.6	706.1	603.5	102.6
1942	301.2	54.8	356.0	292.8	63.2
1943	183.7	7.3	191.0	143.6	47.4
1944	138.7	3.1	141.8	117.7	24.1
1945	208.1	1.2	209.3	184.6	24.7
1946	662.5	8.0	670.5	590.0	80.5
1947	845.6	3.4	849.0	740.2	108.8
1948	913.5	18.1	931.6	766.6	165.0
1949	988.8	36.3	1,025.1	794.3	230.8
1950	1,352.2	43.8	1,396.0	1,154.1	241.9
1951	1,020.1	71.2	1,091.3	900.1	191.2
1952	1,068.5	58.5	1,127.0	942.5	184.5
1953	1,068.3	35.5	1,103.8	937.8	166.0
1954	1,201.7	18.7	1,220.4	1,077.9	142.5
1955	1,309.5	19.4	1,328.9	1,194.4	134.5
1956	1,093.9	24.2	1,118.1	989.7	128.4
1957	992.8	49.1	1,041.9	872.7	169.2
1958	1,141.5	67.9	1,209.4	975.1	234.3
1959	1,342.9	35.6	1,378.5	(1)	(1)

[1] Not yet available.

Sources: Bureau of Labor Statistics, U.S. Department of Labor, and Bureau of the Census.

The instability in homebuilding occurs primarily in housing financed with FHA-insured and VA-guaranteed loans. Housing construction financed with conventional loans has been relatively stable. (See chart, p. 46.)

To a considerable extent, the FHA and VA programs respond in a fashion which tends to accelerate the objective of general monetary policy. The relative inflexibility of FHA and VA interest rates makes them more sensitive to actions taken to control the flow of credit into the economy. When monetary policy is easing credit by moving interest rates downward, the trend to FHA and VA loans occurs rapidly. Likewise, when monetary policy is restricting credit by moving interest rates upward, investment capital flows away from FHA and VA loans into more lucrative investments.

Chart 7, page 47, illustrates the relative inflexibility of FHA and VA interest rates.

CHART 5

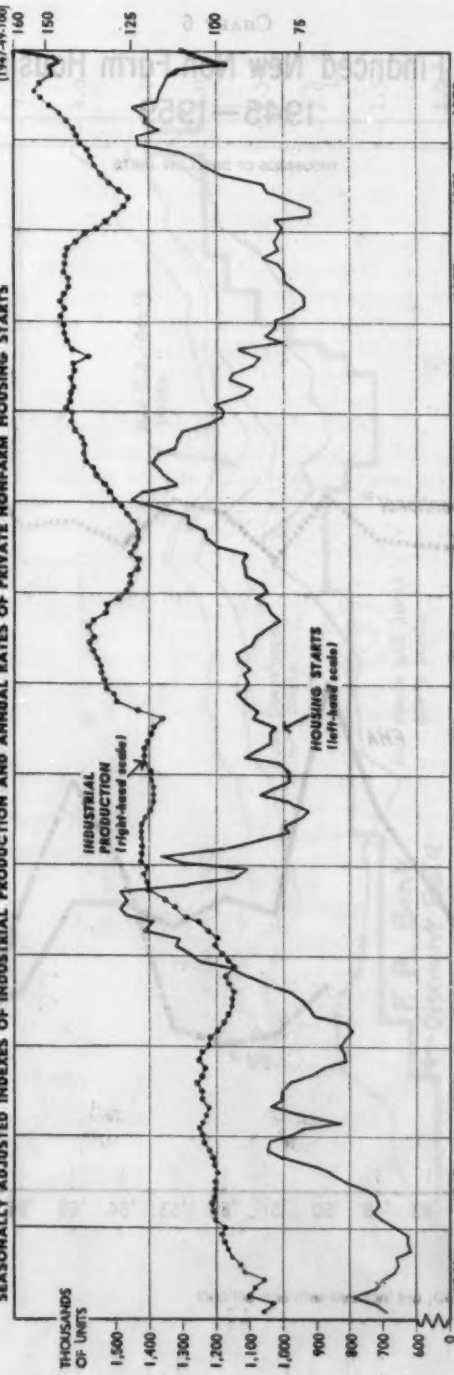
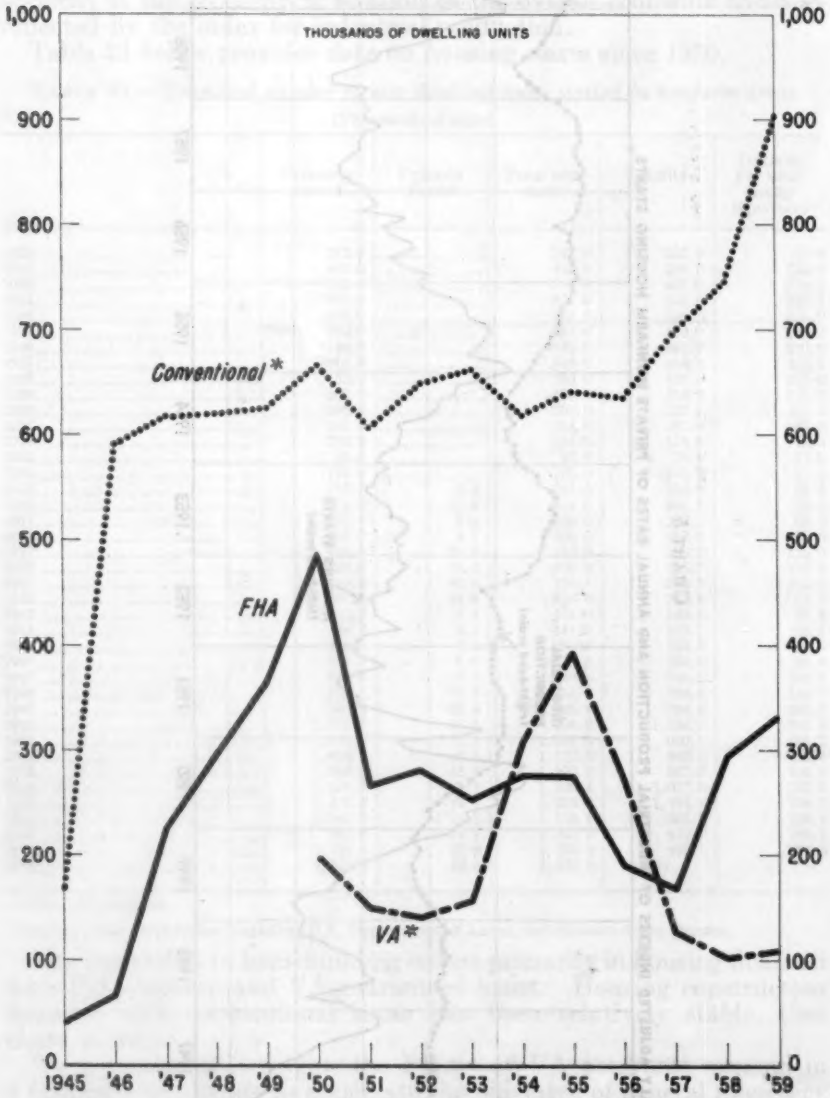

SEASONALLY ADJUSTED INDEXES OF INDUSTRIAL PRODUCTION AND ANNUAL RATES OF PRIVATE NONFARM HOUSING STARTS
INDEX (1947-49=100)
160
150
125
100
75
THOUSANDS OF UNITS
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
0
INDUSTRIAL PRODUCTION (right-hand scale)
HOUSING STARTS (left-hand scale)
1946
1947
1948
1949
1950
1951
1952
1953
1954
1955
1956
1957
1958
1959

CHART 6

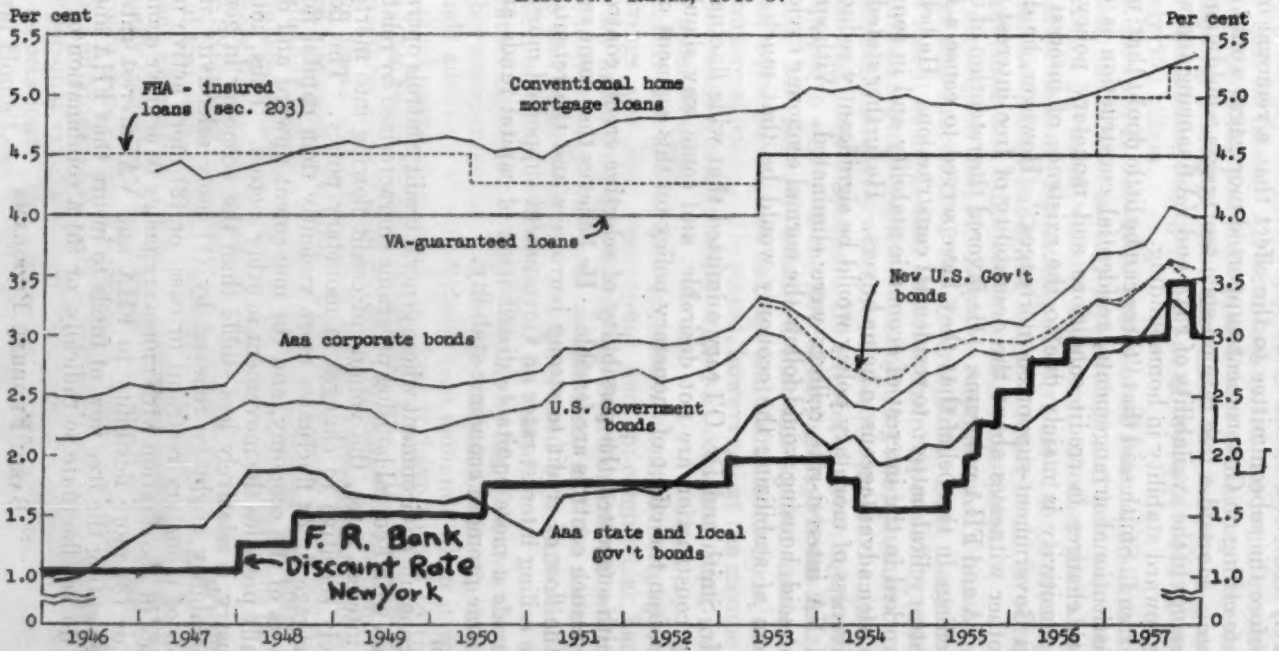
Privately Financed New Non Farm Housing Starts 1945—1959



* VA starts, 1945-1949, are included with conventional

CHART 7

INTEREST RATES AND YIELDS ON MORTGAGE LOANS AND OTHER CAPITAL MARKET SECURITIES, AND FEDERAL RESERVE DISCOUNT RATES, 1946–57



Source: Data on corporate Aaa, municipal Aaa, and U. S. Government securities are quarterly averages of monthly figures. The old U. S. Government bond series consists of fully taxable, marketable 2½-percent bonds due or first callable after 12 years, through September 30, 1955, and those due or callable in 10 to 20 years, beginning October 1, 1955. The new series consists of the 3¼-percent bond of 1978–83 and, beginning February 1, 1955, the 3-percent bond of February 1995. Both series are taken from the Federal Reserve Bulletin. The series on corporate and municipal yields are from Moody's Investor Service.

Data on conventional mortgage interest rates are weighted averages of contract rates on loans closed by 2 life-insurance companies from 1947 to 1951 and by 4 companies from 1951 to 1956; for 1957, data are rough estimates. These data were obtained in connection with a study on The Postwar Mortgage Market for the National Bureau of Economic Research.

The effect of monetary policy upon residential construction has been severely criticized by many observers. Dr. James J. O'Leary testified before the subcommittee to the effect that a removal of the interest-rate ceiling on Government-supported mortgages would solve the problem. He said a free rate on such mortgages would eliminate the wide swings in the availability of FHA and VA financing and would contribute toward stability in homebuilding.

Mr. Warren L. Smith said that "there can be little doubt that, under present institutional arrangements, residential construction is quite sensitive to changes in credit conditions and monetary policy and that this sensitivity is mainly due to the existence of interest rate ceilings on Government-supported mortgages." However, he differs with the other witnesses about the desirability of free interest rates under the VA and FHA programs. He favored the retention of interest rate ceilings in the belief that they have served to cause a fairly strong contracyclical pattern to residential construction. He believes this has worked in the interest of economic stability and in some respects has been advantageous to home buyers. He further stated that the effectiveness of monetary policy would be significantly reduced if FHA and VA interest-rate ceilings were eliminated. Without the ceilings, he said, housing would follow the normal economic cycle and the problem of stabilizing the economy would be that much more difficult.

Both Mr. Smith and Dr. O'Leary admitted that wide fluctuations in housing construction are not desirable, and some way should be found to soften the effect of monetary policy on this segment of our economy.

Mr. Smith suggested the possibility of selective credit controls in areas where such controls are feasible. He believes that some restrictions on the flow of credit to strong borrowers and the retention of adjustable ceiling interest rates on Government-supported mortgages would provide a more equitable distribution of capital funds and at the same time promote economic stability.

Conclusion

In an economic environment where general credit controls operate in conjunction with Federal housing programs characterized by relatively inflexible interest rates, the volume of credit flowing into mortgages is extremely sensitive to changes in monetary policy. The flow of home mortgage funds fluctuates more violently than capital flow to other sectors of the economy, and the movement upward and downward usually precedes the movement in other sectors. Thus, housing, as an industry, is relatively less stable than the economy in general.

This instability might be relieved by (1) more selectivity in the application of monetary restraint or ease, or (2) more active use of fiscal policy in cooperation with monetary policy to achieve economic stability, or (3) more flexibility in FHA and VA interest rates, or (4) supplementing the free flow of funds to insure that FHA and VA programs do not fluctuate so radically, or (5) a combination of these actions.

Basic Federal Programs

FEDERAL HOME LOAN BANK SYSTEM

Several witnesses urged the subcommittee to consider improving the effectiveness of the system of mortgage credit administered by the Federal Home Loan Bank Board. It was felt that through the growth

of savings and loan associations and their potential power to attract savings, the gap between supply and demand of credit in the 1960's could best be filled. All witnesses noted the rapid growth of these institutions in the past decade and were conscious of the fact that in outstanding mortgage debt they lead the field by a good margin. Their outstanding mortgage debt as of the middle of 1959 was approximately $50 billion.

Mr. Edward E. Edwards, professor of finance, Indiana University, felt that the flow of savings into savings and loan associations could be greatly increased without detriment to other desirable forms of capital formation. By making effective use of the borrowing power of Federal home loan banks, he felt that funds could be obtained from pension funds and other contractual savings plans.

To accomplish this, Mr. Edwards recommended a restatement of the powers and functions of the Federal Home Loan Bank Board. He asked that it be made clear that it is their responsibility to see that the institutions are meeting the home financing needs in their communities. There should be also a widespread research program on the subject of savings and home financing. He advocated removing present tax disadvantages to stimulate the flow of savings into home financing institutions. Mr. Edwards admitted that this seemed unusual in view of the tax advantages given savings and loan associations, as compared to commercial banks. He stated, however, that the income from savings accounts is not favorably taxed as compared with income from many other sources.

Mr. Edwards also advocated more freedom in mortgage loans, both in savings and loan associations and in commercial banks. The arbitrary limitations imposed by the Board on individual transactions of member savings and loan associations, and the security requirements and other arbitrary standards used by commercial banks are outdated and should be discarded, he stated.

A rather significant complaint made by Mr. Edwards was that many member associations have raised their dividend rates in order to bring in funds adequate to satisfy local loan demands when it would have been much more economical for them to have turned to the Federal home loan banks for long-term advances. Mr. Edwards stated that the pressures for mortgage credit not satisfied by the home loan bank system found an escape valve through Government-insured or guaranteed loans and through the Federal National Mortgage Association. He felt that had it not been for these programs, the home loan bank system would have been forced to satisfy credit demands by long-term advances to member institutions.

Mr. Robinson Newcomb, of Washington, D.C., presented some helpful statistics, and he joined Mr. Edwards in stating that savings and loan associations are not as aggressive as they should be. He was especially concerned about the decline, relatively speaking, in the last few years in new home financing by these institutions as compared to repair and improvement of existing structures. He also felt that more personal savings should and could be attracted to savings and loan associations. He felt that a directive from Congress to the Federal Home Loan Bank Board that it should facilitate direct long-term borrowing by member associations would have a dramatic effect on the flow of funds to mortgages. He suggested the possibility of the sale of certificates of ownership of rights to mortgages with a form of

guaranty by the Federal Home Loan Bank Board as a device for increasing the availability of funds.

Mr. C. Hobart Carr, of New York University, observed that advances from the Federal home loan banks contribute only modestly to the redistribution of resources among members with excess funds and those with deficit resources. A primary reason for this maladjustment, he stated, was the low rate paid to members on funds held on deposit with the bank. In comparison with other uses, this rate does not encourage deposits and has not resulted in transfers of funds among the members of the home loan bank system. Mr. Carr also stated that mortgage participations have been limited by inability of associations to judge credit risks in areas outside their own region.

Mr. Carr joined Dr. Kurt Flexner, also of New York University, in proposing that a secondary market in conventional mortgages be created through the machinery of the Federal Home Loan Bank System. It was proposed that an operating division of the system be established under the control of the Board to rate mortgages for purposes of sale through the secondary market. A fee would be charged for this service. All mortgages thus approved could then flow into the secondary market.

The actual purchase and sale of mortgages would be done by the Federal home loan banks. Associations whose loan requirements exceed their resources could sell mortgages and obtain new funds. Other associations desiring to purchase would purchase from the portfolio thus acquired by the home loan banks. This secondary market would facilitate the flow of funds from capital surplus areas to capital shortage areas.

Conclusion

The Federal Home Loan Bank System could provide a source of long-term credit to member institutions to an extent greater than is now being done. The system does not contain machinery to permit the operation of a secondary market in conventional mortgages. A policy to supply long-term credit to member institutions in conjunction with a secondary market for conventional loans, would probably increase the supply of home mortgage credit and would permit funds to move more freely from one area to another.

FEDERAL HOUSING ADMINISTRATION, VETERANS' ADMINISTRATION, AND SECONDARY MARKET FOR FHA AND VA LOANS

The contribution of the Federal Housing Administration, the Veterans' Administration, the Federal National Mortgage Association, and similar Federal activities to the supply and distribution of home mortgage credit was discussed in prepared papers and in testimony by Messrs. Miles L. Colean, Thomas P. Coogan, Neal J. Hardy, Harry Held, Chester Rapkin, James W. Rouse, and Robert E. Scott. There was general agreement that activity in FHA–insured and VA-guaranteed loans accounted for wide fluctuations in the flow of home mortgage credit since World War II. The majority of their analyses and testimony concerned FHA and VA interest rates, the FHA premium rate, proposals for improving the Federal Housing Administration, and proposals for strengthening the secondary market for FHA and VA loans through the Federal National Mortgage Association, through a central mortgage bank, and through attracting funds administered by pension trustees and by individuals.

To demonstrate the activity of Federal programs in new construction see table 34 below.

TABLE 34.—*Privately owned permanent nonfarm dwelling units started, classified by type of financing, 1948–59*

Year	Number of starts (thousands)				Percentage distribution		
	Total	FHA insured	VA-guaranteed	Conventional	FHA insured	VA-guaranteed	Conventional
1948	914	294	(1)	[2] 620	32	(1)	[2] 68
1949	989	364	(1)	[2] 625	37	(1)	[2] 63
1950	1,352	487	(1)	[2] 865	36	(1)	[2] 64
1951	1,020	264	149	607	26	15	60
1952	1,068	280	141	647	26	13	61
1953	1,068	252	157	660	24	15	62
1954	1,202	276	307	619	23	26	51
1955	1,310	277	393	640	21	30	49
1956	1,094	189	271	634	17	25	58
1957	993	168	128	696	17	13	70
1958	1,142	295	102	744	26	9	65
1959	1,343	331	109	903	25	8	67

[1] Not available.
[2] Includes VA-guaranteed.

NOTE.—Details may not add to totals because of rounding.
Sources: HHFA, Housing Statistics; Federal Reserve Bulletin.

FHA and VA interest rates

Under existing law, the basic sales housing and rental housing programs of the Federal Housing Administration permit the insurance of loans with interest rates up to 6 percent per annum. At the present time, the maximum rate, administratively established, is 5¼ percent per annum. Under existing law, loans guaranteed by the Veterans' Administration are permitted to bear interest up to 5½ percent, and this rate has been established by the Administrator of Veterans' Affairs.

Messrs. Colean, Rouse, and Scott expressed the view that the wide fluctuation of activity in FHA-insured and VA-guaranteed loans is attributable to the relationship between FHA and VA maximum interest rates and yields available from competitive investments. They believe that the FHA and VA programs will always exert an unstable influence upon the mortgage market so long as the maximum rates under these programs are, from time to time, more or less attractive to investors. They believe that the FHA and VA interest rates should be made completely flexible in order that they can be adjusted to competitive requirements of the money market. Mr. Hardy concurred in the view that FHA and VA rates should be permitted to move together, but he questioned whether a completely flexible rate would achieve stability in the flow of investment funds to insured or guaranteed loans. Mr. Hardy cautioned that competitive investments might continue to outbid the users of home mortgage credit and that an adequate flow of such credit with reasonable stability could probably be achieved only through the activity of some stabilizing influence, such as the Federal National Mortgage Association or a similar Federal program.

FHA insurance premium

Under existing law, the Commissioner of the Federal Housing Administration is permitted to establish a premium rate for the insurance of loans which shall be not more than 1 percent per annum and not less than one-half of 1 percent per annum. At the present time, the FHA premium rate has been administratively established at one-half of 1 percent per annum. This rate is applied to the outstanding bal-

ance from year to year and is collected annually in advance. Premiums collected under the basic single-family sales program (sec. 203 of the National Housing Act) are mutualized and, to the extent that premiums collected exceed expenses incurred and losses paid, participating dividends are returned to mortgagors. The question of the amount of the premium rate, the method of collection, and mutuality were analyzed and discussed in some detail by Messrs. Held and Rapkin.

Mr. Rapkin's testimony was based upon a study he made in association with Prof. Ernest M. Fisher at the Institute for Urban Land Use and Housing Studies at Columbia University. Professor Fisher and Mr. Rapkin analyzed the FHA method of calculating required reserves, income and expenses of the insurance funds, the adequacy of insurance reserves, the self-sufficiency of the insurance system, and margins of safety for the insurance funds.

They concluded that the FHA insurance programs could be administered on a self-sufficient basis, without jeopardy to the insurance reserves and with economies in administration, by changing the method of premium collection. They recommended that the total required premium be collected in a lump sum at the time of insurance and that the present method of collection in annual installments be eliminated. The single premium, paid to the FHA in advance, could be collected from the mortgagor at the time of inception of the loan or could be made a part of the insured indebtedness and collected over the term of the loan. They also recommended that the mutual insurance fund be continued on grounds that this is the best method for assuring a premium rate adequate to accumulate required reserves and for assuring that the mortgagor pays a premium no greater than may be required to cover expenses and losses. They advised the subcommittee, however, that a transition to this new method of premium collection would involve administrative problems which should be carefully considered. They recommended that prior to any legislative enactment, the Federal Housing Administration be requested to submit calculations of the advantages anddisadvantages of the proposal.

Mr. Harry Held's analysis included a review of the Fisher-Rapkin study, as well as the work of the President's Advisory Committee on Government Housing Policies and Programs (1953) and the Commission on Organization of the Executive Branch of the Government (1955). Mr. Held concluded that the present method of premium collection and the mutuality of the section 203 fund should be continued. He did not support the Fisher-Rapkin recommendation for a single premium plan. His position was based on the view that the administrative difficulties in changing to a new system would be almost insurmountable and that the plan would be unattractive to both the mortgagor and the mortgagee.

Both Mr. Held and Mr. Rapkin agreed that the minimum rate of one-half of 1 percent should be maintained and that consideration should be given to extending the mutuality provision to the cooperative housing program (sec. 213 of the National Housing Act). Mr. Held also suggested that consideration be given to elimination of the insurance premium after the 18th year on a 30-year loan, or after the 15th year on a 25-year loan, or after the outstanding balance had been reduced to 50 percent of the original FHA estimate of value.

In general, data received by the subcommittee is insufficient to warrant a conclusive position on the question of the amount of the

FHA premium rate, its method of collection, or on the continuation or expansion of the mutuality provision. Data is sufficient, however, to warrant further study and to request a complete analysis by the Housing and Home Finance Agency.

Miscellaneous proposals regarding FHA and VA programs

In the fall of 1957, the Federal Housing Administration began an activity known as the certified agency program. Under this program, the Federal Housing Administration designates agents who are empowered to process applications for mortgage insurance and to commit the agency to insure loans so processed. This procedure was designed to enable prudent firms to process applications under FHA standards and thereby reduce delays involved in normal FHA processing. It was hoped that this procedure would improve the usefulness of the FHA in smaller towns and cities and could be operated without jeopardy to the insurance funds or to the basic objectives of the National Housing Act.

Messrs. Colean, Hardy, and Scott endorsed the principle of the certified agency program and expressed the view that it had been operating satisfactorily and that it should be expanded. Mr. Colean recommended that all FHA processing be delegated to certified agents, with the exception of general subdivision approval. Mr. Scott concurred in this view and suggested that the same procedure be adopted by the Veterans' Administration. Mr. Hardy suggested that the use of certified agents be expanded with caution and suggested that consideration be given to requiring coinsurance by mortgagees who participate through certified agents. Under this proposal, the mortgagee would agree to assume a reasonable percentage of any insurance loss which might occur, perhaps 10 percent as is the case with mortgagees participating in the FHA renovation and modernization program (title I of the National Housing Act).

Both Mr. Colean and Mr. Scott observed the fact that the Federal Housing Administration is entirely self-sufficient and that all of its expenses are paid from fee and premium income. They also observed that the workload of the agency is subject to variations which make it extremely difficult to estimate personnel requirements with sufficient accuracy to avoid the development of serious backlogs from time to time in some of its field offices. They suggested that this problem could be minimized if the Federal Housing Administration had authority to staff its field offices on a level commensurate with variations in the workloads of those offices by meeting its personal services expenditures through the use of fee and premium income, rather than through the normal budgetary and appropriation process.

Mr. Colean also suggested that problems of mortgagors, mortgagees, and the agency itself could be greatly reduced if all the FHA one- to four-family insurance programs could be consolidated, and if all the FHA multifamily programs could be consolidated—resulting in two major FHA insurance activities.

Secondary market for FHA and VA loans—Federal National Mortgage Association, Central Mortgage Bank

Messrs. Coogan, Hardy, Rouse, and Scott addressed themselves to the adequacy of the secondary market for FHA-insured and VA-guaranteed loans. Mr. Hardy and Mr. Rouse called particular attention to the desirability of creating a debt instrument which would be attractive to pension fund trustees and individual investors. Mr.

Hardy suggested that the capital structure of the Federal National Mortgage Association could be increased and that debentures could be issued against the mortgage portfolio of that agency, which debentures would be attractive to the aforementioned investors. Mr. Rouse related experience in assembling a portfolio of FHA-insured and VA-guaranteed loans against which debentures have been issued by private corporations. He stated that this experience has been less successful than might have been the case if FHA and VA interest rates had been more responsive to competitive conditions in the general money market. Both Mr. Hardy and Mr. Scott suggested that the Federal National Mortgage Association be given authority to make short-term advances against FHA-insured and VA-guaranteed loans, or to operate as a discount bank or warehouse facility.

The most comprehensive proposal for strengthening the secondary market for FHA-insured and VA-guaranteed loans was advanced by Mr. Coogan. He proposed the creation of a Central Mortgage Bank. This institution would be a self-supporting Government corporation without a profitmaking motive.

The Central Mortgage Bank would absorb the Federal National Mortgage Association and would use the existing portfolio of the Federal National Mortgage Association as its basic asset. It would have power to sell bonds in the open market and corollary power to sell bonds to the Treasury. The objective of the Central Mortgage Bank would be to maintain a constant market for FHA-insured and VA-guaranteed loans at prices only slightly below the private market for the purpose of supporting and stabilizing the flow of credit to FHA-insured and VA-guaranteed loans.

Participants in the Central Mortgage Bank system would be required to invest a nominal amount in the stock of the Bank, but there would be no stock-purchase requirement associated with individual sales of loans to the Bank. The Bank would be operated by a Board of Directors, which would have power to establish mortgage loan purchase prices and to establish FHA and VA interest rates. The Board would also determine general criteria of acceptability of FHA-insured and VA-guaranteed loans and thereby minimize the necessity for the scrutiny and examination of individual loans prior to purchase by the Bank.

It was Mr. Coogan's contention that by issuing notes and debentures upon marketable terms, the Central Mortgage Bank could assure a generally adequate and stable flow of home mortgage credit for FHA-insured and VA-guaranteed loans; and that, except under emergency conditions, the Bank system would not depend upon the Federal Treasury.

Conclusion

The insurance and guarantee programs administered by the Federal Housing Administration and the Veterans' Administration contribute to the distribution of mortgage credit to the extent that private investors judge FHA and VA maximum interest rates to be attractive. In the absence of Federal support for FHA and VA interest rates, the activity of these programs rises and falls as their interest rates may be more or less competitive with alternative investments. The activity of these programs could be made more stable by more flexible interest rate policies or by more Federal support.

The contribution of the Federal Housing Administration could be increased by further study and experimentation. For example, (1) the question of the FHA insurance premium—amount, method of collection, and mutuality—should be considered in conjunction with the need to serve borrowers who may represent greater risks; (2) the increased use of certified agents to reduce processing delays should be considered in conjunction with the need to maintain high standards of appraisal and construction; and (3) the question of providing FHA operating funds by the usual appropriation process should be reviewed in the light of economies which might be achieved through permitting the agency to operate by use of fee and premium income.

The Federal National Mortgage Association, as presently constituted and administered, cannot be expected to supplement and stabilize the flow of mortgage credit to the extent that may be desirable. If this supplementation and stabilization are to be objectives of Federal policy during the 1960's, it will be necessary to (1) reconstitute the Federal National Mortgage Association, or (2) change its administrative policies, or (3) create new institutions, such as a Central Mortgage Bank, to operate in lieu of or in conjunction with the FNMA, or (4) a combination of these actions.

Middle-Income Housing

Most outspoken in calling the attention of the subcommittee to the plight of the low- and moderate-income family, and the need for Federal aids to help provide them decent housing, were Dr. William Wheaton of the University of Pennsylvania, and Mr. Charles Abrams of the Massachusetts Institute of Technology. Both of these men pointed out the high cost of financing home construction and suggested methods to reduce these high costs through Federal aids.

Other witnesses also testified about the need for special attention to housing problems of low- and moderate-income families. Mr. H. E. Riley of the Bureau of Labor Statistics said:

> Although the bulk of the housing need can be met in the future, as in the past, by private builders, operating for a profit, there remains a segment of the population with substandard incomes who will require special Government assistance if they are to occupy housing meeting reasonable standards.

Mr. James N. Morgan of the University of Michigan pointed to the failure of the FHA program to meet the needs of the low-income family. He said that—

> there is a real problem at the very bottom of the income scale that neither the FHA nor public housing is really helping.

He also said that—

> data seem to show that FHA does not really help people with very low incomes, that they have to go to conventional lenders and probably pay a higher interest rate, which they are perfectly willing to pay.

Mr. Morgan's theme was that many of these low-income families have such an urgent desire for better housing that they would be willing to make great sacrifices in order to have decent shelter.

FHA experience was pointed out by Mr. Abrams when he reported that—

> during 1957, only 5.7 percent of all new single-family homes insured by FHA were purchased by families with an effective income of $4,200 or less;

also, that—

> the median effective income of purchasers of single-family FHA-insured homes was approximately $6,600 annually.

Mr. Abrams, who prepared his paper in collaboration with Mr. Morton Schussheim of the New York State Rent Commission, stated further:

> that median income (before taxes) of spending units in the United States in 1957, according to the Survey of Consumer Finances, was $4,350 annually and only 31 percent of all families had incomes of $6,000 a year or more.

Mr. Abrams contended that public housing, in which rents are subsidized by the Federal Government, is not the answer to better housing for low- and moderate-income families. A homeownership program is needed and this can be achieved primarily through a reduction in the carrying charges of the loans. He presented the following table to show the reductions in carrying charges that could be achieved by reducing interest charges. The table also demonstrates the effect of lower interest charges in making new housing available to lower-income groups. For example, a 3-percent, 35-year loan would require a monthly housing expense of $89, compared with a 5¾-percent, 25-year loan requiring $119 a month. The lower monthly cost could be carried by a family making $4,272 a year, whereas the higher cost would require a yearly income of $5,712.

TABLE 35.—*Estimated monthly housing expense and required annual income*

[Composite for Nation, mortgage of $12,000]

Cost items [1]	FHA loan, 25 years, 5¾ percent	3-percent loan, 35 years	2-percent loan, 35 years	0-percent loan, 35 years	0-percent loan, 45 years
Interest and amortization	$76	$46	$40	$29	$22
Real estate taxes	18	18	18	18	18
Heat and other expenses	25	25	25	25	25
Total	119	89	83	72	65
Required gross annual income [2]	5,712	4,272	3,984	3,456	3,120

[1] Based partly upon financial characteristics of mortgagors and properties, new homes purchased with FHA sec. 203 insurance in 1957. Housing and Home Finance Agency, 11th Annual Report, 1957, table III–53, p. 116.

[2] Assumes that ¼ of monthly income is spent on housing.

In order to make housing loans at a low rate of interest, Government subsidy would be required. Mr. Abrams proposed the establishment of a Government corporation with borrowing powers similar to FNMA, the Federal home loan banks, and the Federal land banks. Any deficit incurred by the corporation as a result of lending at a low rate of interest and borrowing at a higher rate of interest would be made up by annual appropriations. Mr. Abrams estimated that on every $1.3 billion loaned, maximum annual contributions would be $39 million. This would make possible direct Government loans at subsidized interest rates to 100,000 low- and moderate-income families.

Without taking a position regarding the advisability of a Federal housing subsidy for middle-income families, Prof. Sherman J. Maisel, of the University of California, described for the subcommittee the California veterans' program for homeownership, called the Cal-Vet plan. Since 1921, the State of California has assisted eligible veterans desiring to purchase homes in that State. Under this plan, the State of California raises funds through publicly approved bond issues. These funds are used to purchase homes in the name of the State of California Department of Veterans' Affairs, and the homes are subsequently sold to eligible veterans at minimum interest rates.

The eligible veteran may enter into a temporary purchase agreement for any home in any location he desires. If the home meets the State agency's standards of construction, price, and value, the agency purchases the home and sells it to the veteran on very liberal repayment terms. The agency also purchases fire, life, and disability insurance at bulk rates and this insurance is sold to the veteran at cost. Thus, the veteran's housing expense is minimized by low interest rates, liberal repayment terms, and minimum insurance costs.

At the present time, the insurance rate to the veteran is 3.5 percent, the maximum value of home which can be purchased is $25,000, and the maximum amount of State funds which may be used is $15,000. Eligibility of the veteran depends upon his net worth as it may be indicative of his need for assistance, and upon his ability to repay the loan. Professor Maisel suggested that the California experience might be worthy of consideration as the Congress attempts to find a solution for the housing problems of middle-income families.

The most comprehensive presentation on middle-income housing credit requirements was made by Dr. William Wheaton. His material paralleled that submitted by Mr. Abrams.

According to Dr. Wheaton, an effective middle-income housing program is essential to the health of our cities, to stability in the housing industry, and to decent housing for millions of American families. He defines middle-income families as those whose incomes are too high to permit them to be housed in public housing and too low to be able to afford new privately built housing.

The tables below, concerning Philadelphia, Pa., presented by Dr. Wheaton, show that new housing is generally made available only to the upper third of Philadelphia families. These tables are based upon the assumption that families would be willing to spend 20 percent of their incomes for housing.

TABLE 36.—*Family income distribution, Philadelphia metropolitan area: December 1956*

Income class	Percent	Percent
Under $2,000	12	32
$2,000 to $3,999	20	
$4,000 to $4,999	17	32
$5,000 to $5,999	15	
$6,000 to $6,999	10	
$7,000 to $7,999	8	36
$8,000 to $9,999	8	
$10,000 and over	10	
Total	100	100

Source: National Housing Inventory.

TABLE 37.—*Family income distribution and ability to purchase a home, Philadelphia: December 1956*

Income group	Percent of families	Maximum monthly housing payment [1]	House price required [2]	Normal housing payment
Under $4,000	32	Under $66	About $6,000. None produced	$50.
$4,000 to $5,999	32	$66 to $100	$6,000–$10,000. None produced	$50 to $75.
$6,000 and over	36	$100 and over	$10,000 and up [3]	$75 and up.
Total	100			

[1] Assuming 20 percent of income for monthly payment.
[2] With normal downpayment and financing.
[3] The lowest priced new home in the Philadelphia metropolitan area in 1956. Only 3 percent of new dwellings were at this price level; 20 percent were priced at $10,000–$12,000, 77 percent were priced over $12,000. The 1957 average price was over $15,000. Only 10 percent of Philadelphia families can afford these homes at the average ratio of income to housing expense (15 percent) characteristic of such families.

Source: Institute for Urban Studies.

The above data for Philadelphia are typical for urban places in most of the United States. According to family income data recently released by the U.S. Census Bureau, about 30 percent of urban families had annual incomes in 1958 of less than $4,000, another 30 percent had incomes between $4,000 and $6,000, and 40 percent had incomes of $6,000 and over.

If new housing is being made available only to families with incomes of $6,000 and over, only 40 percent of urban families can afford it. This raises the questions—why not house low- and middle-income families in existing houses? Why must new housing be supplied? Is it not feasible to expect the higher income family to purchase new homes and the remaining families to occupy existing homes as they become older and depreciate in value?

Most low- and moderate-income families have obtained decent shelter through the normal operation of a "filtration" process whereby the new homes bought by the higher income families filter down to the lower income group as they become older and depreciate in value. There is nothing wrong with this if it works properly. The only way it can work properly is by maintaining a flow of good reasonably priced new housing at the top and elimination of wornout and dilapidated houses at the bottom. The principal difficulty has been our inability to supply enough new units, thereby requiring the continued use of wornout and substandard units.

Some have advocated that the answer to a smooth flowing filtration process is code enforcement and rehabilitation. The claim is made that adequate housing can be provided for the moderate-income families through a maintenance and fix-up program. There is no question that rehabilitation has great possibilities, but it can never be a substitute for a constant new supply.

Dr. Wheaton said that "the major issue facing the housing economy is the extent to which filtration can be induced by positive credit policy." He theorized that if the homebuilding industry could be enabled to serve an additional 25 percent of the population, it could presumably produce an additional 200,000 to 500,000 new homes per year. This new volume would force older homes to depreciate in value, and eventually force them off the market.

Dr. Wheaton lists the following items which contribute to the cost of new homes: (1) construction costs, (2) land costs, (3) profits, (4) operating costs, (5) property and other taxes, and (6) financing costs.

There is no question but that constant pressure should be maintained to hold down the costs of these various items. Government

policy can be directed in a number of ways to help accomplish this end, for example, through support of research to reduce construction and land development costs. The one item which is most accessible to public control is financing costs. This is the second largest and sometimes the largest single component in housing cost. When families purchase homes on amortized mortgages of more than 30 years' term, they will pay $20,000 or more for a $10,000 house. See table below for examples of financing costs.

TABLE 38.—*Total payments per thousand dollars over life of loan for various interest rates and amortization periods*

Interest rates	10 years	20 years	30 years	40 years
6 percent	$1,333.20	$1,720.80	$2,160.00	$2,640.00
5 percent	1,273.20	1,584.00	1,933.20	2,313.60
4 percent	1,214.40	1,454.40	1,717.20	2,006.40
3 percent	1,159.20	1,332.00	1,519.20	1,718.40
2 percent	1,104.00	1,214.40	1,332.00	1,454.40

By cutting financing charges in half, the total cost of the $10,000 house, cited above, over the 30-year life of the mortgage, can be reduced by one-fourth—from $20,000 to $15,000.

The table below demonstrates the reductions that can be achieved by various public aids on interest rates:

TABLE 39.—*Estimated total monthly housing expense under various financing terms*

IN TYPICAL NORTHERN CITIES WITH HIGH COSTS

Sales price and downpayment	Total monthly housing expense under—						
	Typical 1956 Federal financing aids			Financing terms required for middle-income families			
	FHA 4½+½ percent 20-year (1)	FHA 4½+½ percent 30-year (2)	FHA 4½+½ percent 40-year (3)	3½ percent 40-year (4)	2½ percent 40-year (5)	1½ percent 40-year (6)	1 percent 40-year (7)
$10,000 3-bedroom home:							
No downpayment	$99	$87	$82	$72	$67	$61	$59
5 percent down	96	85	79	70	65	60	58
10 percent down	93	82	77	68	63	59	56
$9,000 2-bedroom home:							
No downpayment	90	79	74	65	61	57	54
5 percent down	87	76	72	64	60	55	53
10 percent down	84	74	69	62	58	54	52
IN AVERAGE-COST AREAS							
$10,000 3-bedroom home:							
No downpayment	$95	$83	$78	$68	$63	$57	$55
5 percent down	92	81	75	66	61	56	54
10 percent down	89	78	73	64	59	55	52
$9,000 2-bedroom home:							
No downpayment	86	75	70	61	57	53	50
5 percent down	83	72	68	60	56	51	49
10 percent down	80	70	65	58	54	50	48
IN LOW-COST AREAS							
$8,000 3-bedroom home:							
No downpayment	$78	$68	$64	$56	$51	$47	$45
5 percent down	75	66	62	54	50	46	44
10 percent down	73	64	60	53	49	45	43
$7,000 2-bedroom home:							
No downpayment	69	61	57	50	46	43	41
5 percent down	67	59	55	49	45	42	40
10 percent down	65	57	54	48	44	41	39

Notes on page 60.

NOTES

Cost estimates: All cost data are FHA estimates for new homes built under sec. 203 and insured in 1952. Operating expenses, taxes, and insurance are as follows for the several price classes: $10,000—$18.80, $9.20, $1.50; $9,000—$17.93, $8.43, $1.24; $8,000—$16.75, $7.10, $1.15; $7,000—$15.77, $6.41, $1.02. Cf. HHFA, 6th Annual Report, p. 280, table 27. In all cases costs used are for value class below price shown to allow for difference between FHA value and market price.

Northern cities: FHA cost data are national averages. They therefore understate heat and utility costs in northern cities. $4 have been added to FHA estimates to cover this difference in northern cities.

Average-cost areas: FHA cost data.

Low-cost areas: FHA cost data for $8,000 and $7,000 homes probably represent cases occurring almost exclusively in southern areas and in smaller towns in such areas. Available data do not reveal major cities in which $7,000 homes are currently being marketed in significant quantities.

Single homes: All data are for single homes sold for owner-occupancy.

Rental housing: Structures of similar floor area built for rent in typical rental housing projects would probably rent for $4 to $8 per month more than the figures shown. This cost difference would arise from higher maintenance materials, fuel, and utilities.

Financing terms:

(1) Conventional FHA-insured, 20-year loan. The insurance charge is approximate.
(2) FHA-insured, 30-year mortgage at 4½ percent plus insurance as proposed in pending legislation.
(3) FNMA-made, FHA-insured, 40-year loan at 4½ percent plus insurance. This rate is below current rates on sec. 220–221 loans.
(4) A 3½-percent, 40-year level payment loan.
(5) A 2½-percent, 40-year level payment loan.
(6) A 1½-percent, 40-year level payment loan.
(7) A 1-percent, 40-year level payment loan.

Conclusion

Existing institutions available to help achieve the national housing policy of "a decent home and suitable living environment for every American family * * *" are inadequate. It is evident that families of low and moderate income cannot be housed decently, within the foreseeable future, unless new programs for this purpose are fostered by the Federal Government, or by State and local governments, or by all levels of government.

FARM HOUSING

Farm housing in the United States has been notoriously poor in quality for many years and there is no evidence that indicates any substantial improvement for the years 1961 to 1970, according to Dr. Glenn H. Beyer of Cornell University.

The generally poor quality of farm housing exists among all economic classes of farmers, but is particularly bad among those living on farms whose value of products is hardly enough to sustain any kind of decent existence.

The farm housing problem is no less complex than the farm problem in general—it is basically an economic problem. Obviously, low farm income is the major cause of poor housing among farm families. In 1956, for example, 30 percent of farm-operator families received personal incomes of less than $2,000. In 1950, 60 percent of farms were classified as low-production farms being part-time or residential farms, or the perfarm value of products being less than $2,500. According to the latest reports from the Department of Agriculture, farm income in 1959 is expected to drop 15 percent below 1958.

Dr. E. V. Smith, Dean of the School of Agriculture, Auburn University, Auburn, Ala., stated that—

> the most desirable solution to the problem of substandard farm housing would be a rapid and substantial rise in farm income.

He went on to say that—

> millions of farm families live in substandard or dilapidated housing. Since these homes are dispersed on the countryside, they do not make the same impression on our national consciousness that slums in the cities do. Nevertheless, people who live in them are just as uncomfortable as if they lived in similar houses in the city.

Farm population

According to the table below, farm population has dropped by 4.2 million since 1950.

TABLE 40.—*Population of the United States, including Armed Forces overseas, and farm population: April 1950–58*

Year	Total population including Armed Forces overseas	Farm population	
		Number of persons	Percent of total population
1958	173,435,000	20,827,000	12.0
1957	170,510,000	20,396,000	12.0
1956	167,498,000	22,257,000	13.3
1955	164,619,000	22,158,000	13.5
1954	161,761,000	21,890,000	13.5
1953	159,012,000	22,679,000	14.3
1952	156,421,000	24,283,000	15.5
1951	153,691,000	24,160,000	15.7
1950	151,132,000	25,058,000	16.6

Source: U.S. Bureau of the Census, Farm Population, Estimates of the Farm Population of the United States, April 1950–58, Series Census-AMS (p. 27), No. 25, Aug. 8, 1958.

Farm households

By 1970 the number of farm households will be between 4.5 and 4.9 million, a loss of between 1.4 and 1.8 million since 1950, according to Dr. Beyer's estimate. See Dr. Beyer's table and chart below:

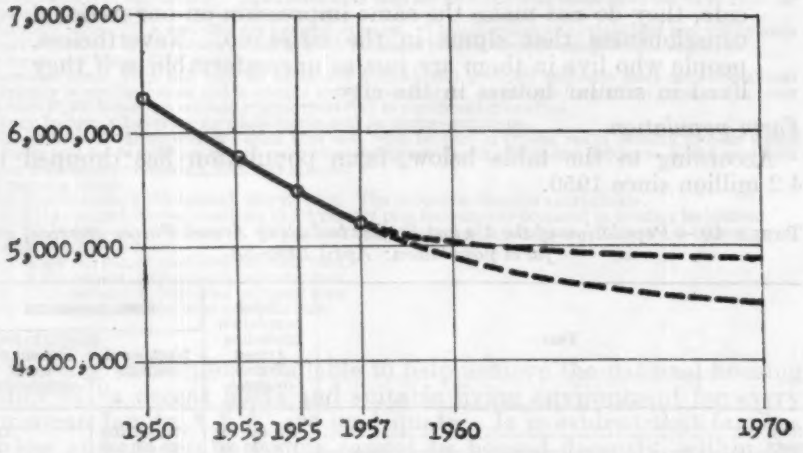
TABLE 41.—*Farm households in the United States, 1950 and 1957, and projections to 1960 and 1970*

Year:	*Number of households*
1950 (actual)	6,275,000
1957 (estimated)	5,218,000

	High projection	Low projection
1960	Net loss of only 24,500 households (average per year for 13 years), most of loss by 1960.	Net loss of only 55,200 households (average per year for 13 years), most of loss by 1960.
1961		
1962		
1963		
1964		
1965		
1966		
1967		
1968		
1969		
1970 (projected)	4,900,000	4,500,000.

CHART 8

TREND IN NUMBER OF FARM HOUSEHOLDS



Source: 1950 to 1957: U.S. Bureau of the Census;
1957 to 1970: Projections made by Dr. Beyer.

Substandard housing

There is a close correlation between substandard farm housing and economic class but even among the best commercial farms, there is a high incidence of poor housing. See table below:

TABLE 42.—*Number of farm families and quality of housing by economic class: 1950*

	Number	Percent delapidated	Percent lacking flush toilet
Commercial farms:			
Class I (value of farm products sold in 1949, $25,000 or more)	103,231	3	35
Class II (value of products, $10,000 to $24,999)	381,151		
Class III (value of products, $5,000 to $9,999)	721,211	5	56
Class IV (value of products, $2,500 to $4,999)	882,302	11	71
Class V (value of products, $1,200 to $2,499)	901,316	19	78
Class VI (value of products, $250 to $1,199)	717,201	30	88
Other farms:			
Part time	639,230	16	70
Residential	1,029,392	23	75
Abnormal (institutional farms, etc.)	4,216		
Total	5,379,250		

The above data are from the 1950 census, which reported that 77 percent of all rural farm housing was substandard. Since that time, there have been some improvements but, according to Dr. Beyer, unless some action is taken (including extended credit facilities) the number of substandard units in 1970 will not be much less than in 1950.

Suggested solutions

The Department of Agriculture suggested that research, education, and credit are the basic elements in finding a solution to substandard farm housing. Continued research is needed in the technical aspects of design and construction, use of new building materials, and the adaptation of technological improvements not only to the farm home, but also to farm service buildings. The further development of functional and flexible farm service buildings would help increase farm income and enable the farmer to pay for better housing.

The facilities of radio, television, newspapers, and magazines should be more widely used to bring to farm families, to lenders in rural areas, and to building material suppliers the practical results of research in the field of housing. In addition, there should be provided technical advice on an individual basis to farm families living in substandard housing, particularly in connection with the repair and modernization of their homes.

To improve, remodel, repair or construct a farm home requires credit. Those farmers who, if they need to borrow, can qualify for credit from conventional sources, generally do not have major budget problems. The real problem, however, is faced by the family which wants to improve its home but is without sufficient income or assets to qualify for a loan from conventional sources.

The Department of Agriculture has had extensive experience in extending financial assistance to farm families for better housing. Under title V of the Housing Act of 1949, approximately 30,000 loans, totaling $170 million, have been made. Three-fourths of this amount was for farm homes. In addition, under title I of the Bankhead-Jones Farm Tenant Act, this Department has made almost 85,000 loans and, of these, 78,000 included new dwellings or the improvement of existing dwellings. All of these loans were made to persons who could not finance their homes with loans from private sources.

The Department's lending experience has been satisfactory from the standpoint of repayments. The delinquency problem has been small. As of December 1958, 32 percent had made advance payments on their loans and only 10 percent had not paid in full the installments due on that date.

These loan programs, however, apply only to a small segment of the farm population—those whose credit ratings meet standards under the regulations of the Department. For the vast majority of farm families living in substandard housing, the major problem is the lack of an economic base to support better housing. For such families there is no successful program now in operation.

Legislative proposals

An analysis of existing legislation indicates that there already exists all the legislation that is needed to carry out the two basic recommendations for resolving the farm housing problem—credit facilities and more extensive research. Additional legislation would be required to carry out the educational program indicated as the third important recommendation for better farm housing. However, unless a more conscientious and aggressive administration of existing law regarding credit and research can be expected in the future, there is serious

doubt about the advisability of adding further enabling legislation for an educational program.

The administration of existing law has been disappointing. Of the more than $1 billion authorized for farm housing loans under title V of the Housing Act of 1949, only $208 million was obligated through May 31, 1959. Under the research provisions for the study of farm credit problems, very little has been done; and under the mandate to report to Congress on national farm housing needs and recommended solutions, nothing significant has been done. Evidently there is a lack of understanding between the Congress and the Department of Agriculture on what should be done. Apparently the Department believes that much of the effort called for by the legislation would be wasteful—the farm housing problem is only a symptom of the farm income problem and, until the economic problems of the farmer are solved, it is useless to try to solve his housing problem.

Summary of existing law on farm housing aids

The most revolutionary housing legislation affecting farms was passed in 1949 as title V of the Housing Act of 1949.

This title authorized loans and grants to owners of farms for the construction, improvement, alteration, repair or replacement of dwellings and other farm buildings. Funds for this program were first made available in 1950, and later supplemented in 1952, 1955, and 1956. Public Law 1020, approved in 1956, authorized $450 million of direct Treasury borrowings to be used for direct loans for farm housing for the period 1957 to 1961. Despite the great need, however, only $112 million of this was obligated, helping less than 15,000 farmers, as of May 31, 1959.

Title V authorized building loans to three types of applicants: (1) Those living on adequate farms whose incomes are sufficient to meet regular amortization payments of principal and interest; (2) those on potentially adequate farms who must make basic changes in their farm program before their incomes will be sufficient to meet annual payments of principal and interest; and (3) those owner-occupants on marginal farms who cannot qualify for loans under (1) or (2) above, and who need assistance for such purposes as repairing roofs, providing toilet facilities, providing a sanitary water supply, and other repairs or improvements. The third group is eligible for grants limited to $500 a family, or grants in combination with loans up to $1,000.

In addition to a program of loans and grants, the Housing Act of 1949 authorized the Secretary of Agriculture to provide technical services to farms for home improvement and to conduct research and technical studies for the construction and improvement of farm buildings and the reduction of cost of farm dwellings. Furthermore, the act directed the Secretary of Agriculture to prepare and submit to the President and to the Congress estimates of national farm housing needs and recommendations for executive and legislative action for the furtherance of the national housing objectives.

In the Housing Act of 1956, a restatement was made of the intention of Congress that the Secretary of Agriculture carry out the purposes of title V of the Housing Act of 1949, and the Secretary was directed to report his progress on housing research to the Congress at the next session.

In the Housing Act of 1957, authority was given to the Housing and Home Finance Agency to undertake a research program for farm housing. The purpose of the shift to the HHFA was the hope that the Housing Agency, which specializes in housing credit and housing research problems, would be better qualified than the Department of Agriculture in administering such a program. The law further specified that the research and study be carried out by land-grant colleges.

A small grant of $300,000 was authorized to carry out the provisions of the section over a 3-year period ending June 30, 1959. The Housing Act of 1959 extended this authority to June 30, 1961, with an additional authorization of $100,000. To date, only $75,000 has been appropriated for this research, with little liklihood of anything further being done without the sympathetic attention of the Administration.

Conclusion

A large segment of the farm population occupies substandard housing. This has been true for many years and is likely to continue in the future, unless positive action is taken to change existing conditions.

The farm housing problem is inseparable from the farm problem in general: it is basically an income problem. In some respects, however, housing of farmers is worse than warranted by economic conditions. Substantial improvements can be made in farm housing through an intensive program—sympathetically and conscientiously administered—of education, research, and the extension of credit.

PART III.—SUMMARY OF CONCLUSIONS

Demand and Need Factors

ESTIMATE OF NEW UNITS REQUIRED

New permanent residential construction required for the period 1961–70 is estimated at a minimum of 16 million nonfarm units, provided an active effort is made to eliminate substandard housing. Substandard housing could be reduced from 11.5 million in 1960 to 5.5 million in 1970. The total inventory of housing would increase from 58.3 million dwellings in 1960 to 70.8 million in 1970.

FAMILY INCOME, PURCHASING POWER, AND HOUSING EXPENSE

Average family income, representing real purchasing power, should be 22 percent higher in 1970 than in 1960, but despite some flattening of the income curve there is no prospect for a significant reduction in the 20 million families and individuals who have current annual incomes of less than $4,000.

The effect of this on housing is to expect the construction of better quality and higher priced homes, corresponding to the 22-percent increase in real family income. However, unless this is accompanied by a building program to supplement the supply of housing for occupancy by low- and moderate-income families, it will leave unresolved the housing problems of many American families. Furthermore, the estimated large number of low-income families by 1970 points up the difficulty of demolishing or otherwise eliminating 4 million units of substandard housing on which is predicated the construction of 16 million nonfarm permanent homes during the sixties.

The American people have demonstrated a great desire for better living conditions and a willingness to make the necessary sacrifices to satisfy this desire. The potential purchasing power in this Nation should be adequate to support a demand for a new construction program of 16 million permanent nonfarm units from 1961 to 1970, although greater flexibility in qualifying potential consumers may be required to satisfy this demand.

CREDIT TERMS AND DEMAND FOR RESIDENTIAL CONSTRUCTION

Existing law gives considerable discretion to administrative agencies of the Federal Government to cause changes in credit terms for transactions in residential real estate. The principles related in the summary by Mr. Ramsay Wood are generally sound and are recommended to the careful attention of Federal agencies which have this discretion.

Supply Factors

MATERIALS

The prospects are good for an adequate supply of basic building materials to meet the needs of residential construction during the sixties. Special types of lumber products may show up in short supply in some areas but not enough to cause a serious rise in prices.

LAND

The supply of land for residential development is adequate. The economical development of this land, however, depends upon the availability of community facilities at minimum cost.

An alternative to acquisition and development of raw land in the suburbs is more intensive and efficient use of available areas in the cities made possible by urban renewal programs.

LABOR

Labor supply for residential construction does not appear to be a problem for the sixties. Local shortages in particular skills may occur from time to time, but unless there are sporadic sharp increases in demand for labor because of instability of construction activity, no overall shortages are expected.

TECHNOLOGY AND RESEARCH

If new homes of the sixties are to improve in quality in conformity with other great advances anticipated in our economy, and if advanced technology is to compensate for increases in the prices of developed land and materials, a comprehensive and aggressive research program to develop new and better techniques in all phases of residential construction is essential.

In addition to such technical research, studies should be undertaken on other important phases of our shelter problem—marketing, financing, and consumer abilities and desires.

MORTGAGE LOAN REQUIREMENTS

New funds required to finance 16 million new permanent nonfarm units in the sixties are estimated at $160 billion, or about 60 percent greater than the quantity used during the past decade. The need for these funds will vary as home starts vary, increasing from about $11 billion in 1961 to about $20 billion by 1970.

These estimates assume that mortgage funds to finance existing home purchases will come from repayments and prepayments of existing mortgages.

SUPPLY OF MORTGAGE CREDIT

A supply of mortgage funds for residential construction amounting to an estimated $160 billion will be available for the decade of the sixties only if the past rate of savings and the proportion flowing into mortgages continues as in the past decade. This is not likely to occur unless positive action is taken to assure it. New sources of credit may have to be used, and new financial instruments may be needed to insure a required flow of $160 billion.

MONETARY POLICY AND THE FLOW OF MORTGAGE CREDIT

In an economic environment where general credit controls operate in conjunction with Federal housing programs characterized by relatively inflexible interest rates, the volume of credit flowing into mortgages is extremely sensitive to changes in monetary policy. The flow of home mortgage funds fluctuates more violently than capital flow to other sectors of the economy, and the movement upward and downward usually precedes the movement in other sectors. Thus, housing, as an industry, is relatively less stable than the economy in general.

This instability might be relieved by (1) more selectivity in the application of monetary restraint or ease, or (2) more active use of fiscal policy, in cooperation with monetary policy, to achieve economic stability, or (3) more flexibility in FHA and VA interest rates, or (4) supplementing the free flow of funds to insure that FHA and VA programs do not fluctuate so radically, or (5) a combination of these actions.

Federal Programs

FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank system could provide a source of long-term credit to member institutions to an extent greater than is now being done. The system does not contain machinery to permit the operation of a secondary market in conventional mortgages. A policy to supply long-term credit to member institutions in conjunction with a market for conventional loans would probably increase the supply of home mortgage credit and would permit funds to move more freely from one area to another.

FEDERAL HOUSING ADMINISTRATION, VETERANS' ADMINISTRATION, AND SECONDARY MARKET FOR FHA AND VA LOANS

The insurance and guarantee programs administered by the Federal Housing Administration and the Veterans' Administration contribute to the distribution of mortgage credit to the extent that private investors judge FHA and VA maximum interest rates to be attractive. In the absence of Federal support for FHA and VA interest rates, the activity of these programs rises and falls as their interest rates may be more or less competitive with alternative investments. The activity of these programs could be made more stable by more flexible interest rate policies or by more Federal support.

The contribution of the Federal Housing Administration could be increased by further study and experimentation. For example, (1) the question of the FHA insurance premium—amount, method of collection, and mutuality—should be considered in conjunction with the need to serve borrowers who may represent greater risks; (2) the increased use of certified agents to reduce processing delays should be considered in conjunction with the need to maintain high standards of appraisal and construction; and (3) the question of providing FHA operating funds by the usual appropriation process should be reviewed in the light of economies which might be achieved through permitting the agency to operate by use of fee and premium income.

The Federal National Mortgage Association, as presently constituted and administered, cannot be expected to supplement and stabilize the flow of mortgage credit to the extent that may be desirable. If this supplementation and stabilization are to be objectives of Federal policy during the 1960's, it will be necessary to (1) reconstitute the Federal National Mortgage Association, or (2) change its administrative policies, or (3) create new institutions, such as a Central Mortgage Bank, to operate in lieu of or in conjunction with the FNMA, or (4) a combination of these actions.

MIDDLE-INCOME HOUSING

Existing institutions available to help achieve the national housing policy of "a decent home and suitable living environment for every American family * * *" are inadequate. It is evident that families of low and moderate income cannot be housed decently, within the foreseeable future, unless new programs for this purpose are fostered by the Federal Government, or by State and local governments, or by all levels of government.

FARM HOUSING

A large segment of the farm population occupies substandard housing. This has been true for many years and is likely to continue in the future, unless positive action is taken to change existing conditions.

The farm housing problem is inseparable from the farm problem in general—it is basically an income problem. In some respects, however, housing of farmers is worse than warranted by economic conditions. Substantial improvements can be made in farm housing through an intensive program—sympathetically and conscientiously administered—of education, research, and the extension of credit.

PART IV. RECOMMENDATIONS

Recommendation No. 1

The subcommittee believes that a minimum of 16 million permanent nonfarm housing units should be constructed during the 10-year period beginning in January 1961. The subcommittee further believes that the achievement of this goal is consistent with economic growth and stability throughout the economy. This goal cannot be achieved, however, without perfection and supplementation of existing Federal housing laws and without deliberate action by the executive branch of the Federal Government to administer these laws in terms of the achievement of this minimum goal. Consequently, the subcommittee recommends, as an initial step, an amendment of existing law to require the following annual report from the President: At the beginning of each session of the Congress, the President shall transmit to the Senate and the House of Representatives a report stating, among other things, (1) the minimum number of housing units which should be started during the calendar year, or 2 calendar years following submission of the report, in order to be consistent with the program of the President, (2) the manner in which discretion contained in law will be used by Federal agencies to achieve this minimum number of starts, and (3) recommendations for changes in law which may be required to enable the achievement of this minimum number of starts.

Recommendation No. 2

Among the physical factors which contribute to the production of new housing—land, labor, and materials—only land appears to represent a serious problem. Although the supply of land is adequate, the cost of preparing land for residential development and the cost of providing essential community facilities and services may seriously retard the achievement of the minimum goal of 16 million units from 1961–70. Consequently, the subcommittee recommends the continuation and liberalization of several existing programs, as follows:

1. The program of urban planning assistance, under which the Federal Government grants funds on a matching basis for urban planning by smaller communities, should be continued with average annual resources of at least $10 million.
2. The program of public facility loans, under which the Federal Government lends funds to State and local governments to finance construction of essential community facilities, should be continued at an interest rate which does not return a profit to the Federal Government and with average annual resources of at least $50 million.
3. The program of advances for public works planning, under which the Federal Government makes interest-free advances for

the planning of future public works projects, should be continued with average annual resources of at least $15 million.

4. The Federal urban renewal program, under which the Federal Government makes grants to assist localities complete projects for urban renewal and redevelopment, should be continued with average annual resources at a level substantially higher than at present.

Recommendation No. 3

The Subcommittee believes that technological advance represents the best opportunity for improving the quality of residential construction without increasing unit cost. In order that this opportunity may be fully exploited, the subcommittee recommends implementation of existing law to establish a research program within the Housing and Home Finance Agency. The objective of this program should be to identify problems in residential construction which could be solved by further research and to foster this research by direct activity of the Agency, by contracting with agencies or organizations outside the Federal Government, and by encouraging research that may be undertaken independently of the Federal program.

Recommendation No. 4

The subcommittee further recommends that existing law be amended to direct the Federal Housing Administration to encourage research and experimentation in residential construction by insuring loans and minimizing the risks of private lenders who are willing to accept residential units of advanced design and technology as security for mortgage loans.

Recommendation No. 5

The subcommittee believes that the instability of residential construction, which is partially attributable to monetary policy, should be minimized. Consequently, the subcommittee recommends that the Board of Governors of the Federal Reserve System be requested to submit a report, not later than January 1, 1961, which report shall, among other things, include the following:

1. An analysis of residential construction activity during the period 1946 through 1959, and a comparison of this activity with general economic activity over the same period.

2. An explanation of the factors which have contributed to instability in residential construction during this period.

3. Recommendations for minimizing this instability during the 10-year period beginning in January 1961, recognizing the need for a minimum construction of 16 million permanent nonfarm units and recognizing the need for general economic growth and stability.

Recommendation No. 6

The subcommittee believes that the Federal Home Loan Bank System can make a significant contribution toward the achievement of a construction goal of 16 million permanent nonfarm units during

the 10-year period beginning in January 1961, and that this contribution might be assured by changes in the System which would permit a larger volume of long-term borrowing by member institutions and which would provide a secondary market for conventional loans. Consequently, the subcommittee recommends that the Chairman of the Federal Home Loan Bank Board be requested to submit a report not later than January 1, 1961, which report shall, among other things, include the following:

1. The extent to which member institutions could, with safety, be permitted to increase their volume of long-term borrowings from sources within as well as without the Federal Home Loan Bank System.
2. Legislative proposals which may be necessary to permit such long-term borrowings.
3. The desirability of establishing a secondary market for conventional loans within the Federal Home Loan Bank System.
4. Legislative proposals which may be required to inaugurate such a secondary market.

Recommendation No. 7

The subcommittee believes that the flow of mortgage credit required to produce 16 million permanent nonfarm units during the 10-year period beginning in January 1961 may not be achieved without the perfection or supplementation of existing institutions designed to provide a secondary and supplementary market for loans insured by the Federal Housing Administration or guaranteed by the Veterans' Administration. Consequently, the subcommittee recommends that the Administrator of the Housing and Home Finance Agency be requested to submit a report, not later than January 1, 1961, which report shall, among other things, include—

1. An analysis of total mortgage credit requirements which may be required to support new residential construction activity of 16 million permanent nonfarm units, on a stable basis, during the 10-year period beginning on January 1, 1961.
2. The extent to which this volume of credit may be available, on a stable basis, without revision of the enabling legislation or the administrative policies of the Federal National Mortgage Association or without the creation of a new institution to provide an active secondary market for loans insured by the Federal Housing Administration or guaranteed by the Veterans' Administration.
3. The desirability of creating an independent board to establish interest rate policies for programs administered by the Federal Housing Administration and the Veterans' Administration, and to establish purchase and marketing policies of the Federal National Mortgage Association or any other institution created to provide a secondary market for loans insured by the Federal Housing Administration or guaranteed by the Veterans' Administration.

RECOMMENDATION NO. 8

The subcommittee recognizes that the Federal Housing Administration has passed its 25th anniversary and has in a large measure been successful in working toward the purposes of its enabling legislation. The subcommittee believes that the programs administered by the Federal Housing Administration should be continued but that its usefulness could be increased by changes in its basic statutes and by changes in administrative policies made to implement these statutes. Consequently, the subcommittee recommends that the Administrator of the Housing and Home Finance Agency be requested to submit a report, not later than January 1, 1961, which report shall, among other things, include—

1. An analysis of the present rate of, method of collection, and mutuality of the FHA insurance premium; and recommendations concerning the desirability of reducing the rate, changing the method of collection, and eliminating or extending mutuality; such recommendations to be made in the light of the necessity to serve the needs of borrowers who may represent greater risks than borrowers who now receive benefits of FHA programs.

2. An analysis of the present program by which the actions of certified agents are accepted in lieu of normal FHA processing, and recommendations regarding the extent to which this activity might be expanded without jeopardizing high standards of appraisal and construction.

3. Recommendations regarding the desirability of amending existing law to permit the Federal Housing Administration to staff its field offices at levels consistent with variations in field office activity and by the use of funds derived from fee and premium income.

RECOMMENDATION NO. 9

The subcommittee believes that the national housing policy of "a decent home and suitable living environment for every American family * * *" cannot be achieved within the foreseeable future without the creation of new programs designed to solve this problem. Consequently, the subcommittee recommends that bills now pending, which propose a Federal program to increase the volume of residential construction for middle-income families, should be given high priority and should be considered as soon as possible during the current session of Congress.

RECOMMENDATION NO. 10

The subcommittee believes that significant improvement in the housing conditions of millions of farm families can be achieved only through an intensive program of education, research, and extension of needed credit to worthy farm families. Consequently, the subcommittee recommends that existing law be amended to authorize and direct the Department of Agriculture and the Housing and Home Finance Agency to undertake a program of education and research designed to reduce the volume of substandard farm housing. The

subcommittee further recommends that existing programs administered by the Department of Agriculture be continued with annual resources of not less than $50 million for loans on adequate farms, $2 million for contributions on potentially adequate farms, and $10 million for loans and grants on farms not eligible for regular loans or contributions.

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